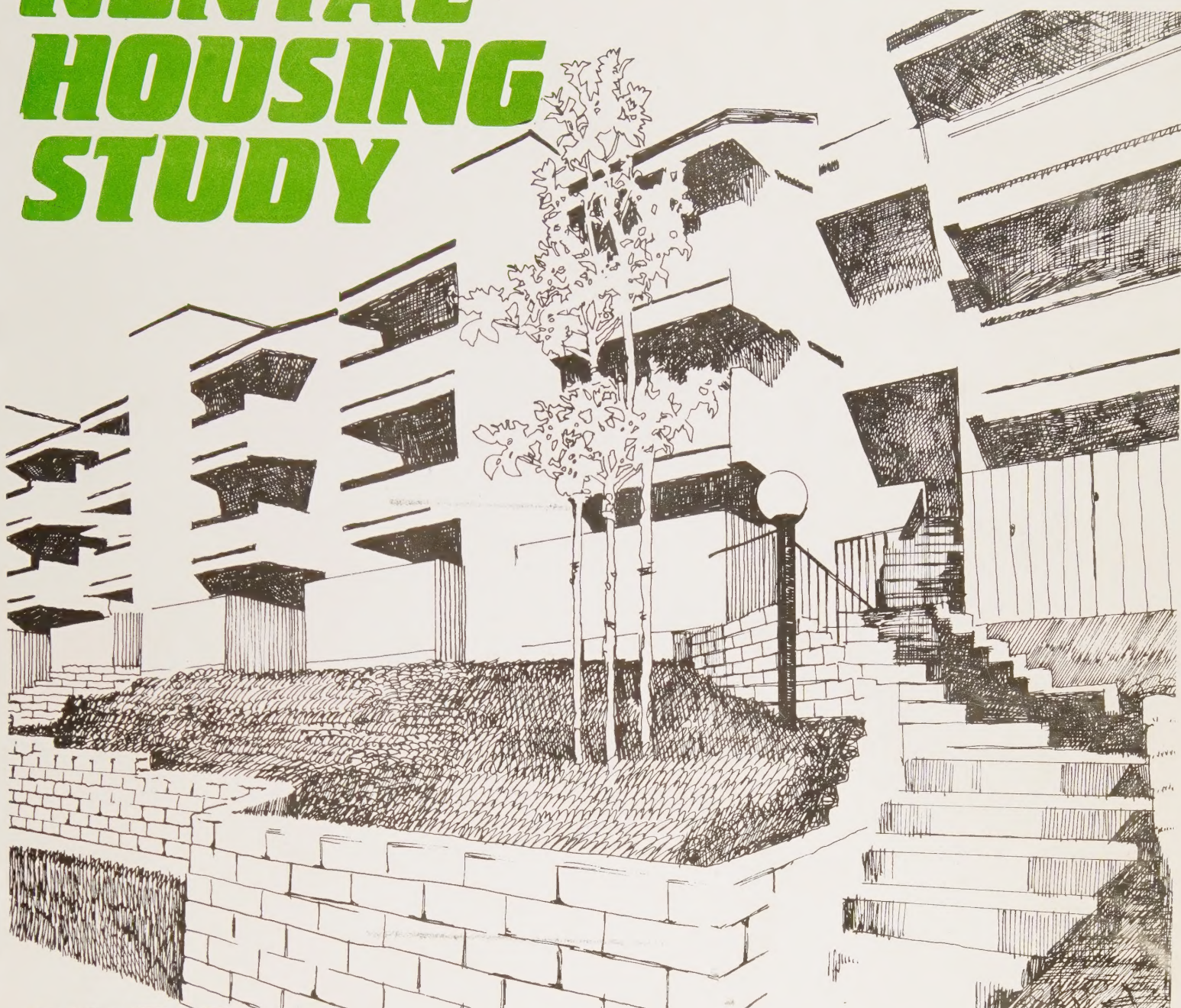


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# RENTAL HOUSING STUDY



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**MOBILE HOME PARKS  
UNDER RENT STABILIZATION**

Hamilton, Rabinovitz, Szanton & Alschuler





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THE LOS ANGELES RENT STABILIZATION SYSTEM:  
THE MOBILE HOME SECTOR

Prepared for  
Rent Stabilization Division  
Community Development Department  
City of Los Angeles


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May 1985



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## EXECUTIVE SUMMARY

### THE LOS ANGELES RENT STABILIZATION SYSTEM:

#### THE MOBILE HOME SECTOR

##### Introduction

Rent stabilization has been in effect with respect to mobile home parks in the City of Los Angeles for the past six years. This Report presents the findings of a research effort designed to provide City policy makers with facts, figures and analyses concerning the impact of rent stabilization on owners and operators of mobile home parks and on mobile home park residents. It is also designed to assist policy makers to evaluate alternative formulas for setting maximum allowable rent adjustments for rent-stabilized mobile home pads in the future. Finally, the Report assesses the special problems and circumstances of mobile home park owners and residents which distinguish their situation from that of owners and renters of conventional apartment units.

The mobile home sector requires separate treatment because some aspects of occupancy, ownership and regulation distinguish it from the apartment sector. First, unlike the renters who live in rent stabilized apartment units, mobile home residents include two quite different groups. Most mobile home residents occupy coaches owned by these residents but located on rented pads. A smaller group of mobile home residents rents both pad and coach. Mobile home residents are also different from other renters in demographic characteristics. The average age of household heads is 67 years in the mobile home sector, 25 years older than for apartment renters. Ninety-eight percent of mobile home residents are white, in contrast to 54% of other renters. Most strikingly, mobile home households are significantly less mobile than other renters. They have been in their units an average of 9.1 years, two-thirds longer than their counterparts in apartments, who have been in their units an average of 5.5 years.

The difference in occupancy, centered on the ownership of coaches and rental of pads only, accounts for the major current difference in the treatment of mobile home residents under the rent stabilization ordinance. As of June, 1984, if a vacancy occurs in a resident-owned mobile home, but the home only changes ownership and is not removed from the site, the increase in allowable pad rent is restricted to the lesser of 10% or the highest comparable rent in the park. If the coach is removed from the site, on the other hand, the rent is decontrolled. In contrast, coaches rented with pads are always decontrolled at vacancy, just as an apartment unit would be.





Mobile home park owners are also somewhat different from landlords who own other types of residential rental multi-family property. They tend to have greater costs for investment in and upkeep and operation of park infrastructure and grounds than do landlords of conventional rental properties. They also have lower costs for the maintenance and upkeep of the actual housing units the residents occupy.

In addition, special conditions of other kinds, such as zoning restrictions on the development of mobile home parks, affect the situation of both park residents and owners in ways distinct from the rest of the rental housing stock.

### The Impact of Rent Stabilization on Mobile Home Park Residents

It is estimated that about 6,500 households reside in 68 mobile home parks subject to rent stabilization in the City of Los Angeles. Based on analysis of a survey of a random sample of these residents in 1984 and limited data from the 1977 Annual Housing Survey, the study finds that:

- \* About one-quarter of residents in Los Angeles mobile home parks do not know whether or not their dwellings are subject to rent stabilization.

- \* By common standards of home size and physical condition, mobile home park residents are well-housed. Housing conditions appear to have changed for the better since the adoption of rent stabilization. The typical coach is more than one full room larger, on the average, than the typical coach in place in 1977, and the incidence of problems with wiring, plumbing, crowding, heating and overall repair have declined.

- \* Residents find most aspects of park operation, condition, and surroundings satisfactory. Seventy-four percent are satisfied or very satisfied with owner/operator and manager performance, with slightly more than half very satisfied.

- \* On average coach-owning residents pay \$248 per month in pad rent. Their total housing costs, which can include mortgage payments on coaches, property taxes and utilities, are 50% higher, combining to average \$374 per month. Mobile home residents who rent both pad and coach have average total costs of \$279 per month. Coach owners pay a significant \$70 less per month than the gross rents paid by apartment renters.

- \* Coach owners spend an average of 30% of their income for housing. Thirty-nine percent pay over 30%. Coach renters pay less, with 90% paying under 30%.





\* While average gross rents have risen 76.4% in mobile home parks since the adoption of rent stabilization, the rate of increase has been slower than in the apartment sector.

\* Coach owners have substantial equity -- \$30,000 on average -- in their coaches, and these values have risen 76% since purchase.

#### The Monetizable Costs and Benefits of Rent Stabilization

\* Monetary benefits of rent stabilization to park residents are difficult to estimate. The study assumed that benefit could be measured, as in the analysis of tenants of conventional apartment units, by comparison to a standard called "Market Rents." This concept assumes that in the absence of stabilization, rents would have risen to the levels represented by the rents charged to new pad renters in pads that have been vacated recently. However, the random sample of households surveyed did not turn out to include a single pad renter who had moved under circumstances in which the law would allow unrestricted rent increases at the time of vacancy. This was true not only for 1984 but also if the year 1983 was included.

\* An estimate of benefits was made assuming that with no stabilization pad rents might have risen at about the same rate as apartment rents in cities adjoining Los Angeles that do not regulate rents. This increase would produce average benefit of \$44 per month, or 18% of average pad rents. This is quite similar to the average benefit to long tenured tenants in the apartment sector, whose savings in 1984 ran between \$47 and \$55 per month.

\* Mobile home park residents perceive substantial financial benefits from rent stabilization. Seventy-nine percent believe their rents would be higher without it. Park owners agree that rents would be higher, but not nearly as much higher as residents believe.

-- If one totals park residents' estimates of the money savings flowing to them from rent stabilization, the estimates suggest that rents would be 69%, or \$160 per month, higher than they are today.

-- Park owners estimate that rents would be 20% higher without stabilization in 1984.

#### Non-Monetizable Costs and Benefits

\* The most striking change in the condition of mobile home tenants since the adoption of rent stabilization is the increase in their length of tenure, which rose from less than 6 to over 9 years. Mobile home residents see stabilization as protecting their ability to stay in their current homes. Thirty-five percent of the park residents report that they have experienced



themselves or heard about tenants who have been able to stay in place when unstabilized rents would otherwise have made staying unaffordable.

## The Impact of Rent Stabilization on Los Angeles Mobile Home Park Owners

### The Situation of Mobile Home Park Owners

The key questions to be answered with respect to mobile home park owners in the City are: (1) What is the current position of park owners and how has it changed since 1977? (2) Are park owners under greater financial pressure in operating parks than owners outside the City in nonstabilized areas? The following summary answers to these questions arise from the data and analyses thereof.

- \* Parks are generally filled to capacity. Owners reported that 7% of their pads had changed occupants during the previous year, a higher turnover rate than reported by residents, but low compared to apartment turnover. Ninety percent of the changes involve new residents purchasing coaches from their previous owners. One-third of the parks have waiting lists.

- \* Mobile home park values have risen substantially since owners' purchase. For the parks which reported both purchase price and current estimated value, parks have appreciated about 94% over the average 15.2 year period for which the property has been held.

- This appreciation record is similar to that reported by apartment landlords, whose appreciation was 107% during an average holding period of 14.6 years.

- Pads in park use are estimated to be worth \$18,000 per pad, while if the land were converted to a use other than as a mobile home park each pad space is estimated to be worth \$34,000.

- \* Fifty-eight percent of the owners rate their parks as in superior or above average condition.

- Capital improvements needed are estimated to require expenditures of \$400 per pad per year. The most frequently cited need is for repaving.

- Park conditions are more highly rated by owners in the City than outside.

- Seventy-three percent of the City owners plan to make the improvements they identify.





### Expense to Income Relationships

\* Total park incomes average \$2,725 per pad. Eighty-seven percent of income is derived from pad rents.

-- Owners report pad rents averaging \$196 per month, 21% lower than the \$248 reported by coach-owner residents.

\* Operating expenses are \$911 per pad, or about 40% of income once utility cost pass throughs are eliminated. The largest elements are utilities and employee salaries and benefits.

\* Net operating income (NOI), defined as total income minus operating expenses and lease payments, indicates funds remaining to cover debt service (for those who do not have leases but have mortgages) and profit. NOI for 1983 in the mobile home parks surveyed is \$1,476 per pad, or 59% of total income. NOI is positive for every reporting park.

\* Net cash flow (NCF) is defined as NOI less financing costs. It measures funds left to owners once all park costs are paid. NCF was found to average \$1,000 per pad per year or 41% of total income for 1983. Every park in the sample reported positive net cash flow.

### Comparison to Mobile Home Parks Outside the City

\* The financial situation of mobile home parks outside the City in areas without rent stabilization is a bit more favorable than the situation of those within the City. NOI as a share of total income is 65% outside the City, compared to 59% in the City. NCF is 43% outside the City, compared to 41% in the City.

### **Alternative Rent Adjustment Formulas**

\* Seven optional formulas limiting the maximum allowable annual increase in rent were compared in order to analyze the probable impact of these formulas on mobile home residents and on park owners. The formulas tested are:

(1) The current flat 7% ceiling.

(2) The all-item Consumer Price Index (CPI) for the Los Angeles metropolitan area.

(3) The CPI for all goods and services other than shelter.

(4) A fixed proportion of the CPI, based on conventional rental building cost data, set to equal the ratio of operating costs and cash flow to building income in the conventional apartment stock.

(5) A cost based index based on conventional rental building data.





(6) A cost based index based on mobile home park cost data.

(7) A fixed proportion of the CPI, based on mobile home park data.

\* Rent adjustment formulas very directly determine the rent charges that the vast majority of mobile home residents pay, because so few households move that vacancy decontrol provisions rarely come into play.

\* With respect to most formulas, mobile home residents' rents are affected no differently from those of apartment renters by the different formulas. If the 1983-84 rate of price change prevails in the future, adjustments would range from a low of 2.27% with the apartment cost-based formula, to the high increase produced by the current 7% ceiling.

\* A cost-based or percent-of-CPI rent adjustment formula fitted specifically to mobile home park data would produce a larger rent increase than these formulas fitted to data from conventional rental buildings.

-- Adjusting net cash flows, which are a bigger share of park than of apartment incomes, for inflation produces this result.

-- The mobile home park-specific formulas fall in the middle of the range of overall results. Using a mobile home-based cost formula generates a maximum allowable increase of 3.4% based on 1983-84 price data. Using a mobile home based percent-of-CPI formula generates a maximum increase of 3.37%.

\* The impact of variation in rent adjustments on housing costs for most mobile home residents is less than that for renters of conventional apartments because a major part of the housing cost of the mobile home resident is for the coach he owns.

\* If the 1983-84 rate of price change persists in the future, the 7% formula will be the most advantageous of the formulas to park owners. It would produce an 8.85% increase in NOI, based on 1983-84 prices, while the cost-based formula geared to changes in conventional apartment building costs would yield an 0.81% increase. The cost based mobile home formula and the percentage-of-CPI formula geared to mobile home cost data produce intermediate results, at 2.80% and 2.68% respectively.

\* Net operating income to park owners would rise under any of the optional adjustment formulas.



## Special Needs and Problems of Mobile Home Residents

\* In addition to concerns shared with other renters and owners, owners and residents of mobile home parks have three special concerns. These are (1) the possible conversion of mobile home parks to alternative uses; (2) a possible shortage of parks; and (3) a possible deterioration of park infrastructure.

\* With respect to conversion to alternative uses:

-- Thirty-eight percent of mobile home park residents view conversion of their mobile home park to other uses as a significant concern.

-- The susceptibility to conversion without zoning change is great, since 49% of parks in the City are actually in industrial zones and another 16% are in commercial or higher density residential zones.

-- Fifty-eight percent of the park owners say they may sell their parks. 40% say if the parks were sold the use would not be for a mobile home park.

-- The average park owner reports that the value of his property would be 1.79 times larger in non-mobile home park use than in mobile home park use.

\* Fifty-three percent of the residents report that they would consider buying their parks cooperatively.

-- The economics of cooperative purchase for the average resident suggest that purchase would be possible if good long term financing could be obtained. Residents report averaging \$250 in pad rents. If 2/5ths of this is for costs, the remaining \$150 could support repayments on borrowing of about \$14,600 if a loan were at 12% for 30 years. The median coach owner reports he has \$5,000 that might be available for a down payment. This \$5,000 cash, plus \$14,600 borrowed, would enable the average resident to pay \$19,600 per pad, somewhat more than what the average owner says is the average pad value (\$18,202) if the land is retained in mobile home park use.

-- However, if owners were to sell at their estimate of the park's value if put into alternate use (\$33,896 per pad), cooperative conversion would be significantly less affordable for the average park resident.

\* There is widespread agreement among park residents that there exists a current shortage of mobile home park space in Los Angeles, even without park conversion to alternative uses.

-- Seventy-nine percent of residents feel the number of mobile home parks is insufficient.





-- The City has no land zoned for new mobile home park use except under conditional use permit.

\* The condition of mobile home park infrastructure does not seem to be a special problem for mobile home park residents and owners.

-- Ninety percent of the residents are satisfied with park condition, 83% with upkeep and 82% with speed of repairs.

-- Only 25% of park owners think their park infrastructure needs improvement, and 75% of these intend to make the needed repairs. Current average annual cash flows of over \$1,000 per pad compare favorably with the under \$400 cited as the average annual dollar value of capital improvements needed per pad. Rent increases at the level of 2.5% of current average rents would also support this level of needed improvement.





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# THE LOS ANGELES RENT STABILIZATION SYSTEM: THE MOBILE HOME SECTOR

## CHAPTER 1 INTRODUCTION

This Report presents the findings of the analysis of Los Angeles mobile home housing carried out as part of the City of Los Angeles' 1984 Rental Housing Study. The work was conducted by a consortium of firms led by Hamilton, Rabinovitz, Szanton and Alschuler, Inc. (HRS&A), which served as the prime contractor, and the Urban Institute, which designed and performed the basic analysis of the data assembled. Arthur Young & Company performed the data collection from property owners. Professional Research Organization, Inc. conducted the interviews in the telephone survey of mobile home tenants. However, all survey instruments and other substantive tools employed in both surveys were produced by the project leaders. A complete list of the names of members of the project team may be found at the end of the Report.

### 1.1 Statement of Purpose

The basic objective of the project, which is described at greater length in the companion Report on landlords and tenants in apartment units subject to rent stabilization, was to help the City to construct the data bases and the analytic infrastructure necessary to understand how the rental housing market works, and to assess the municipal policy options available with respect to that market and the people involved in it.

This Report, together with its companion volume on the apartment components of the rent stabilized housing sector, summarizes the findings reached in the course of achieving these objectives. Another volume of Technical Appendices provides methodological analysis and further detail on many findings.





However, the team has exerted a substantial effort to make the body of this Report meet the information demands of the non-technician, while also remaining as comprehensible to that reader as is possible within the constraints imposed by a complex topic.

The Report examines the impact of rent stabilization on Los Angeles mobile home "tenants" and on mobile home "landlords." Mobile home tenants and landlords are currently treated in much the same way as other rental housing owners and renters under the Rent Stabilization Ordinance. Maximum permitted rent adjustments for units continuously occupied by the same resident are 7% per year, with up to an additional 2% allowed when the park owner pays for one or both utilities, just as for conventional rental properties. However, as noted below, the decontrol provisions governing units that are vacated without removal of the coach from the site vary from the limitation applicable to other types of units.

While mobile homes constitute a very limited fraction of the Los Angeles rental housing stock, they have special characteristics that merit separate consideration in the design of a rent stabilization program. Prime among these is the mixed owner-renter situation of most mobile home park tenants.

## 1.2 Structure of the Report

Chapter 2 describes the characteristics of mobile home residents and discusses the impact of rent stabilization on mobile home tenants. Unlike the tenants who live in rent stabilized apartment units, there are two quite different types of tenancy situations in mobile home parks. One group of mobile home tenants occupies coaches owned by these tenants but located on rented pads; the other group of mobile home tenants rents both pad and coach. This difference in occupancy accounts for the major difference in the treatment of mobile home tenants under the rent stabilization ordinance. As of June, 1984, if a vacancy occurs in a resident-owned mobile home but the home only changes ownership and is not removed from the site, the increase in allowable



pad rent is restricted to the lesser of 10% or the highest comparable rent in the park. If the coach is removed from the site, on the other hand, the rent charged to the next tenant is completely decontrolled. Coaches rented with pads are always decontrolled at vacancy just as apartment units would be. Previous to the 1984 amendment, if only pads were rented the 7% rent increase limit applied even at vacancy, so that current provisions are less strict than prior controls on rents at vacancy.

Mobile home park owners are also somewhat different from landlords who own other types of residential multi-family properties subject to rent stabilization. They tend to have greater costs for investment in and upkeep and operation of park infrastructure and grounds than landlords of conventional rental properties and lower costs for the actual housing units themselves. Chapter 3 discusses the situation of mobile home park landlords in detail.

Chapter 4 looks at the impact of optional rent adjustment formulas on both mobile home tenants and landlords. The alternative formulas discussed are identical to five of those discussed with respect to the rest of the rent stabilized population. They include a formula geared to 100% of the all item Consumer Price Index (CPI) for the Los Angeles metropolitan area; a formula geared to the Non-Shelter Component of the CPI; a formula geared to a percentage of the CPI set to equal the ratio of building operating costs plus profit to operating income for park owners; the current flat ceiling of 7% on the annual increase in the rental charged for an unvacated pad; and a Cost Based formula which relates rent increases to increases in operating and maintenance costs. They also include two additional formulas geared specifically to the mobile home sector -- a mobile home cost Based formula and a mobile home cost based percent-of-CPI formula.

In addition, special conditions of other kinds, such as zoning restrictions on the development of mobile home parks, affect the situation of both park tenants and landlords in ways





distinct from owners and occupants of the rest of the rental housing stock. Chapter 5 discusses these special conditions and problems.



## CHAPTER 2

### THE BENEFITS AND COSTS OF RENT STABILIZATION TO LOS ANGELES MOBILE HOME PARK TENANTS

This Chapter examines the impact of rent stabilization on Los Angeles tenants who live in mobile home parks. As in the analysis of tenants in traditional multi-family units, several key issues are addressed:

- \* What is the current housing situation of mobile home park tenants?
- \* How has it changed since the imposition of rent stabilization?
- \* What financial benefits and costs have accrued to this population as a result of rent stabilization?
- \* What benefits and costs of a non-financial nature can be attributed to rent stabilization ?

The Chapter has five principal sections. We begin by describing the data sets employed in the analysis. We then examine broad trends in the cost and quality of mobile home housing in the City during the period 1977 to 1984. The third section presents estimates of the benefits and costs that have resulted from rent stabilization which can be expressed in financial terms, while the fourth section examines other benefits and costs that do not lend themselves to financial expression. Finally, the Chapter concludes with a brief summary overview of our general findings.

#### 2.1. The Mobile Home Tenant Data

Two data sets were used in the analysis of benefits and costs to tenants: the 1977 Annual Housing Survey (AHS) conducted under Federal auspices and including data on 21 Los Angeles mobile home park households as part of a nationwide data base; and a 1984 telephone survey of 200 randomly selected mobile home tenants in the Los Angeles area conducted specifically for this



study. Since so few Los Angeles mobile home park households were included in the AHS, the treatment of that data, in the section of this Report on changes in mobile home tenant and housing characteristics, is illustrative only.

The primary data set, the 1984 telephone survey, is a 3% sample of all Los Angeles mobile home park households. Of the 200 respondents, 13 were excluded from the analysis because the residents stated explicitly that their units were not subject to rent stabilization. The remaining respondents were overwhelmingly households that owned their own coaches and rented only pads from park owners. One hundred seventy-five, or 94%, fell in that category, while only 12 households, or 6%, rented both pad and coach. For many purposes below, the two groups are combined. Where characteristics of the two categories of households differ conceptually, such as in the role of rental payments in overall housing costs, separate treatment is provided.

Exhibit 2-1 summarizes the characteristics of the tenant sample used in the mobile home analysis. Exhibit 2-2 compares the characteristics of this sample to that of the sample of tenants in the analysis of conventional rental housing. The latter Exhibit indicates clearly that mobile home park tenants are substantially different from other renters. With respect to age, the head of household in more than three-quarters of the mobile home households is at least 62 years old. The mean age of the head of household in mobile home tenant families is 67 years, 25 years more than for apartment renters. Two thirds of the mobile home households have at least one elderly member. Only 2% have any children under 18. With respect to household size, the average is 1.6 members per household in mobile homes, a significantly smaller household size than is characteristic of tenants in apartment rental housing. Ninety-eight percent of all mobile home residents are white, in contrast to 54% of renters of apartment units. And, 43% of mobile home tenant households are female-headed, compared to 38% of apartment renters.





## EXHIBIT 2-1

The 1984 Sample of Mobile Home Households

<u>Household Characteristics</u>	<u>Percentage of Households</u>
<u>Age</u>	
Under 30	2%
30 - 61	22
62 +	77
 <u>Female-Headed</u>	 43
 <u>White</u>	 98
 <u>Income</u>	
\$0 - \$5,000	11
\$5,000 - \$10,000	21
\$10,000 - \$20,000	32
\$20,000 - \$30,000	20
\$30,000 - \$40,000	10
over \$40,000	6
 <u>HUD Income Categories</u>	
Very low	25
Low	24
Moderate	13
Above Moderate	37
 <u>Length of Tenure</u>	
Less than 1 year	0.5
1 - 3 years	5.4
3 - 6 years	29.0
6+ years	65.1



EXHIBIT 2-2

Household Characteristics of Mobile Home and  
Apartment Renter Households

<u>Characteristic</u>	<u>Mobile Homes</u>	<u>Apartments</u>
Age of head (years)	67* (.08)	42 (.35)
Number of People in household age 65+	.92* (.05)	.20 (.01)
Number of People in household under age 18	.04* (.02)	.06 (.02)
Number of People in household age 18-64	.71 (.07)	1.55 (.02)
Total number of People in household	1.64** (.05)	2.34 (.03)
Mean Length of Tenure	9.1 (.36)	5.5 (.13)
Race (% white)	.98*	.54

1. Standard errors in parentheses.

\* Mean value is significantly different between mobile home and  
conventional renters at the .01 level.

\*\* Mean values differ at the .05 level.





Mobile home residents are typically of quite limited means. Sixty-four percent of these households have incomes under \$20,000 per year. Average income is \$19,937, significantly less than the \$23,634 average for other renters. By U.S. Department of Housing and Urban Development standards pertaining to combinations of household income and size, 25% of mobile home households are "very low income" and another 24% are "low income."<sup>1</sup> Since all income figures are for current income, they reflect in part the fact that many mobile home residents are retired.

Most striking, mobile home households are significantly less mobile than other renters, with mean lengths of tenure in their current pad locations of 9.1 years, two-thirds longer than their counterparts in rental apartments, who have been in the same place an average of 5.5 years. Nearly two-thirds of mobile home tenants have been in place six years or more.

By common standards of home size and physical condition, Los Angeles mobile home park residents are well-housed. These characteristics are compared with the characteristics of tenants in conventional rental housing in Exhibit 2-3 and 2-3a. Two-thirds of the mobile home tenants live in double-wide coaches, on lots averaging almost 2,400 square feet. The average number of rooms is 4.44, significantly larger than the 3.38 average for other renters, although room sizes are not comparable. Not a single mobile home household is "crowded," using a definition of more than one person per room, while 16% of apartment renters live with this level of crowding. Seventy percent of mobile homes have two bedrooms; nearly all the rest have one. Thirty-nine percent have one complete bathroom and the remaining 61% have more. Ninety-six percent of the mobile home park residents report that they are very or somewhat satisfied with the size of their units, compared with 86% of apartment renters.

Even in terms of the special housing condition problems mobile homes may have, Los Angeles park residents generally enjoy good housing quality. Housing conditions are shown in Exhibit 2-4 for mobile home residents and compared to those reported by renters in apartments in Exhibit 2-5. Uneven settling of coach



# EXHIBIT 2-3

## Measures of Size of Los Angeles Mobile Homes and other Rentals, 1984

<u>Measure</u>	<u>Mobile Homes</u>	<u>Other Rentals</u>
Mean number of rooms <sup>1</sup>	4.44* (.02)	3.38 (.03)
Percent overcrowded	0*	16
Percent very satisfied or somewhat satisfied with size of unit	96*	86

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1. Standard errors in parentheses.

\* Significantly different from conventional renters at the .01 level (small cell size in "percent overcrowded" makes Chi-Square test questionable).

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# EXHIBIT 2-3a

## Numbers of Bedroom and Baths, Los Angeles Mobile Homes, 1984

	<u>1</u>	<u>1.5</u>	<u>2</u>	<u>3+</u>
Bedrooms	26%	n.a.	70%	4%
Baths	39%	13%	47%	1%

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EXHIBIT 2-4

Housing Condition Problems Specific  
to Mobile Homes, 1984

<u>Problem</u>	<u>Percent of Coaches with Problems</u>
Uneven settling of blocks, foundations, or supports	12.38
Problems with joining of double-wide sections	2.2
Airleaks in walls	1.6
Inoperative doors or windows	3.2
Other outside wall problems	1.1
Buckling of inside walls	0.5
Other inside wall problems	0.5
Buckling floors	1.6





EXHIBIT 2-5  
Housing Condition Problems for  
Mobile Home Residents and Apartment Renters, 1984

<u>Problem</u>	<u>Percent with Problem<sup>1</sup></u>	
	<u>Mobile Homes</u>	<u>Other Rentals</u>
Wiring not concealed	0.5% <sup>*</sup>	9.0%
Lack complete plumbing	0.0 <sup>*</sup>	0.6
Deficient heating equipment	1.1 <sup>*</sup>	10.4
Presence of rats or mice	4.8 <sup>*</sup>	12.4
Cracks or holes in walls	0.5 <sup>*</sup>	17.4
Holes in floors	0.0 <sup>**</sup>	4.0
Perceived in need of repair	1.1 <sup>2</sup>	15.6 <sup>2</sup>

- 
1. Percentages are of all those answering the question.
  2. The definition of "perceived in need of repair" differs between mobile homes and other rentals, with the latter including additional items pertaining to common spaces not present in mobile homes. The figures are therefore not directly comparable.
- \* Significantly different from conventional renters at .01 level. Note that the accuracy of Chi-Square tests in this table is questionable because of very small cell sizes in the mobile home "problem" cells.
- \*\* Significantly different from conventional renters at .05 level. Note that the accuracy of Chi-Square tests in this table is questionable because of very small cell sizes in the mobile home "problem" cells.



supports is a fairly common condition in mobile homes, affecting 12% of the households. But, neither this condition nor other factors have caused substantial numbers of homes to have problems with coach joining, door and window fit, leaks, or buckling. Of the eight problems listed in the table, the average coach had a reported total of only 0.2 difficulties. The coaches also are in good condition in terms of measures applicable to apartment rentals. With the exception of signs of rats or mice, only about 1% or less of mobile home tenants suffer the various problems listed. Each surveyed coach has at least one complete bathroom. Few have heating deficiencies, defined as lack of heat or heat only by portable room heaters, whereas this is a more frequent deficiency for other rentals. Wiring, wall and floor problems are both uncommon and significantly less so than in conventional units. A composite condition measure, "perceived in need of repair," was created, defined as either a heating or plumbing deficiency or two or more of the other deficiencies. Only the 1% of mobile homes with heating deficiencies fell into this composite problem category of coaches in need of significant improvements.

The condition, management, and location of mobile home parks, and conditions in their immediate surroundings are also important determinants of resident quality of life, combining aspects which would be expressed in concerns for common spaces, grounds, and neighborhood for tenants in conventional buildings. The average mobile home tenant lives in a park averaging 183 pads.<sup>2</sup> As indicated in Exhibit 2-6, 52% live in parks 15 to 25 years old. Only 5% live in parks built since rent stabilization began. Ninety percent live in a park managed by a resident manager. Exhibit 2-7 indicates level of resident satisfaction with six components of park upkeep, management, and location. Residents are generally satisfied with most dimensions of park conditions, though often only "somewhat" rather than consistently "very" satisfied. For the three measures of park conditions -- physical condition, upkeep, and speed of repairs -- 80% to 90% of residents were at least somewhat satisfied and 40% to 50% were





EXHIBIT 2-6  
Distribution of Residents by  
Mobile Home Park Age, 1984

<u>Age of Park</u>	<u>Percentage of Residents</u>
Less than 6 years	58
7 - 14 years	19
15 - 25 years	52
26 - 35 years	15
36 - 45 years	5
46+ years	4

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EXHIBIT 2-7

Residents' Level of Satisfaction with Mobile  
Home Park Characteristics (Percentage Distribution)

<u>Characteristic</u> <sup>1</sup>	<u>Very Satisfied</u>	<u>Somewhat Satisfied</u>	<u>Somewhat Dissatisfied</u>	<u>Very Dissatisfied</u>
Physical condition of park	49.7%	40.1%	6.4%	3.7%
Park overall upkeep	49.2	34.2	11.2	5.4
Speed of repairs to park facilities	40.9	40.9	8.3	9.9
The owner/operator	38.5	35.1	14.9	11.5
Manager's performance	42.3	33.5	14.3	9.9
Distance from work	53.0	42.2	3.6	1.2

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1. All percentages in the table are among people who actually answered the relevant question. For most characteristics, there were few non-responses. But distance from work had 55 percent non-respondents, likely reflecting retired status of many residents.
-



very satisfied. Speed of repairs was slightly less well-regarded than resulting condition. Seventy-four percent of mobile home residents were satisfied with owner/operator and manager performance, with slightly more than half of those satisfied being "very" satisfied. Ninety-five percent were satisfied with park location in terms of distance from work, but many residents did not respond to that question, presumably because they are now retired.

Mobile home park tenants were also asked if certain conditions in their parks and surrounding areas were so bad that they would, as a consequence, like to move away. As Exhibit 2-8 shows, the numbers of mobile home residents with such strong negative feelings about their park surroundings were few. Inadequate police protection and extensive highway noise were the most common serious problems which tenants cited as potentially causing them to consider moving, but even those were severe problems for only 6% and 5% of households respectively. Even fewer felt pressed to move by abandoned buildings, trash in the street, inadequate neighborhood shopping, or inadequate recreation facilities. Problems of inadequate police protection, the presence of abandoned buildings, trash, and inadequate recreation facilities were significantly less often considered severe than they are by renters of apartment units. However, the standard for identifying a serious problem among this set of characteristics -- that it be so serious as to cause the mobile home tenant to move -- is very demanding, given the immobility of the tenant population in this housing type. When mobile home dwellers were separately asked simply if their park had adequate security to prevent unwelcome strangers from entering, 43% said they did not think so -- many more than the 6.4% who thought poor security made them want to leave. Exhibit 2-9 indicates that looking across the many park characteristics mentioned above, most mobile home residents felt positive about their parks. Forty-two percent of the residents rated their parks as excellent and another 41% as good overall.



# EXHIBIT 2-8

## Frequency of Neighborhood Conditions Sufficiently Bad to Cause Mobile Home and Conventional Renters to Wish to Move

<u>Condition</u>	<u>Percentage of Residents<sup>1</sup></u>	
	<u>Mobile Homes</u>	<u>Conventional Renters</u>
Inadequate police or park protection	6.4% *	15.0%
Presence of boarded-up or abandoned buildings	0.5 *	5.6
Trash in street	4.3 *	13.7
Inadequate neighborhood shopping	4.8	7.0
Inadequate recreation facilities	1.6 *	12.8
High level of highway noise	5.4	not asked

1. Percentages for these variables are measured as the share of "yes" responses in all surveys taken including "not sure" cases, on the basis that very bad conditions sufficient to warrant moving would have produced a response.

\* Significantly different from conventional renters at .01 levels. Small cell sizes for abandoned buildings and recreation facilities among mobile home residents make Chi-Square tests of questionable accuracy.





EXHIBIT 2-9

Residents' Overall Ratings of Mobile Home Parks

<u>Rating</u>	<u>Percentage of Residents</u>
Excellent	42%
Good	41
Fair	16
Poor	4



## 2.2 A Comparison of Trends in the Housing Situation of Mobile Home Renters: 1977 - 1984

### 2.2.1 Trends in Rents and Rent to Income Ratios

Mobile home park residents have a more complicated housing cost situation than renters of apartments. Most own their coaches and have ownership-related costs, much like other homeowners, as well as paying pad rent and other charges to their park-owner landlords. Given the preponderance of coach ownership and the small number of coach renters in the sample, the housing cost analysis concentrates on coach owners. Relevant coach renter information is also provided. Comparisons of current mobile home resident costs are also made to the costs of apartment renters and to the costs borne by mobile home tenants in 1977, before the adoption of rent stabilization.

Exhibit 2-10 indicates that during 1984, mobile home park residents who owned their coaches paid an average of \$248 per month for their pads. The range of pad rents was substantial, from \$120 to \$550. Virtually none of this pad rent was reported as arising from special fees related to either capital improvements or other special services. Only four households indicated awareness of any such charge.<sup>3</sup> Additional rent for amenities and services was also apparently negligible. Exhibit 2-11 indicates that while park residents do receive a variety of amenities with their pad rentals, virtually all of these are included in rents.

Exhibit 2-10 also shows that current mortgage payments average less than \$60 per month. This low average reflects the fact that only 21% of the 135 coach owners who reported their mortgage payments had any mortgage at all. Those who had mortgages paid an average of \$267 in mortgage costs per month. Property taxes were the next most significant cost component for coach owners at over \$50 per month, but total utilities at \$43 per month were nearly as large. Average costs for individual utility components are affected by how many of the residents, rather than the park owners, pay for the particular cost. Most mobile home park tenants pay separately for electricity and gas, but few pay garbage



# EXHIBIT 2-10

## 1984 Monthly Housing Costs for Mobile Home Park Residents

<u>Cost Component</u>	<u>Coach Owners Mean Monthly Cost</u> <sup>1</sup>	<u>Coach Renters Mean Monthly Cost</u>
Rent	\$248.00 <sup>2</sup> (5.49)	\$232.92 <sup>3</sup> (17.02)
Mortgage payment	57.46 (10.65)	n.a.
Property taxes	52.28 (9.85)	n.a.
Electricity	24.14 (1.63)	32.00 (7.71)
Gas	18.12 (1.72)	14.55 (5.15)
Garbage	0.30 (1.85)	0.00 (0.00)
Sewer and water	0.32 (0.17)	0.00 (0.00)
Maintenance	33.54 (4.44)	n.a.
Total cost--computed as sum of component averages above <sup>4</sup>	434.16	279.47
Total cost--computed for only those households reporting each component <sup>4</sup>	374.27 (16.23)	275.64 (24.93)

1. Standard errors in parentheses.

2. Rent for pads.

3. Rent for pads and coaches together.

4. Some residents reported certain cost components but not others. The first total cost measure in the table represents the sum of averages for each component, where the component averages are obtained using every resident who reported for a given component. The second total cost measure is the average total cost only for those households who reported every component

n.a.: Not applicable. Tenants may do some maintenance even on coaches they rent, but we did not collect the data.





# EXHIBIT 2-11

## Amenities and Services Provided in Mobile Home Parks, and Related Charges, Coach Owners

<u>Amenity or Service</u>	<u>Provided with Rent</u>	<u>Provided for fee</u>	<u>Not Available</u>
Carport	64%	0%	36%
Visitor parking	91	0	9
Security system	42	2	56
Swimming pool	83	0	17
Jacuzzi/hot tub	49	1	50
Tennis court	15	1	84
Laundry	94	4	2
Health club or spa	25	0	75
Community room	82	1	17
Stores	26	0	74
Unit air conditioning	43	0	57

# EXHIBIT 2-12

## Who Pays for Utilities of Coach Owners

<u>Utility</u>	<u>Paid by Resident</u>	<u>Paid by Park Owner</u>	<u>Not Applicable</u>
Electricity	79%	20%	1%
Gas	62	37	1
Garbage collection	6	88	5
Water and sewer	5	91	3



or sewer and water costs directly and no one reported paying either one-time or periodically for utility hookups. Coach maintenance costs were the smallest category of expenditures, at \$33.54 per month, but were not far behind utilities.

Total monthly costs, including all these components, amounted to \$374 per month for coach owners. That figure is computed by averaging total costs among residents who reported each cost component. If the averages for each component contained in Exhibit 2-10 are computed by including every household responding on that component even if they did not respond on all, the total cost is \$434.

Mobile home residents who rent both pad and coach pay significantly less for their housing than do coach owners. Their costs are shown in the right hand column of Exhibit 2-10. Rents for pad and coach together averaged \$15 less than pad rents alone for coach owners. Adding utilities, the total costs of coach renters come to \$275 - \$279 per month, about \$95 - \$155 less than for coach owners.<sup>4</sup>

The higher housing costs of coach owners reflect the substantial investments they have in their coaches. Exhibit 2-13 summarizes these factors. The average owner paid almost \$22,000 for his coach. Transportation and other set-up costs were minimal, in part because three-quarters of the owners bought their coaches in place. Buyers, including those without mortgages, reported borrowing an average of \$4,875 for purchase, but mobile home tenants who borrowed averaged nearly \$21,500 in mortgage expense. Residents estimate current average coach values to be 76% higher than the average initial purchase price. Using those estimates of current value, responding coach owners average \$30,177 equity in their homes above current mortgage debt owed.<sup>5</sup>

How burdensome are mobile home residents' costs, given their incomes? We examined this situation separately for coach owners with mortgages, owners without mortgages, and renters. The key data are summarized in Exhibits 2-14 and 2-15. Consider first the relation of total housing costs to income.<sup>6</sup> For all coach owners, an average of 30% of income is going to a combina-



EXHIBIT 2-13  
Initial Costs and Current Values  
of Resident-Owned Coaches

	<u>Mean</u> <sup>1</sup>
Purchase price of coach	\$21,979 (1,405)
Transportation, set-up, hook-up costs	19 (9)
Amount borrowed for purchase	4,875 (1,075)
Estimated current coach value	38,693 (1,774)
Estimated current equity (value net of current debt)	30,177 (2,256)

---

1. Standard errors in parentheses.





# EXHIBIT 2-14

## Rent to Income Ratios, 1984

<u>Burden Measure</u>	<u>Mean Values<sup>1</sup></u>			
	<u>Coach owners with mortgages</u>	<u>Coach owners without mortgages</u>	<u>All coach owners</u>	<u>Coach renter</u>
Total housing cost	\$561.04 (34.20)	\$325.11 (11.74)	\$374.27 (16.23)	\$275.6 (24.9)
Ratio of total housing costs to income	.33 (.05)	.29 (.03)	.30 (.02)	.17 (.03)
Ratio of rent to total housing cost	.44 (.03)	.78 (.02)	.71 (.02)	.85 (.03)
Ratio of rent to income	.15 (.02)	.24 (.02)	.23 (.01)	.15 (.03)

1. Standard errors in parentheses.



# EXHIBIT 2-15

## Distribution of Housing Cost-to-Income Ratios, 1984

<u>Household Category</u>	<u>Ratio of Total Housing Cost to Income</u>			
	<u>Less than 20%</u>	<u>20 - 29%</u>	<u>30 - 39%</u>	<u>40% +</u>
Coach-owner households	38.7%	22.6%	17.7%	21.0%
Coach-renter households	70.00	20.0	0.0	10.0
Coach-owner subgroups:				
Under 62 years old	58.3	8.3	16.7	16.7
62 or older	34.0	26.0	18.0	22.0
Income under \$10,000	0.0	15.0	25.0	60.0
Income \$10,000 - \$20,000	20.0	45.0	25.0	10.0
Income over \$20,000	83.3	8.3	8.3	0.0
With mortgages	25.0	12.5	50.0	12.5
Without mortgages	38.6	22.7	13.6	25.0



tion of pad rent, mortgage payments, utilities, taxes, and maintenance. This is precisely at the level considered "affordable" according to Federal standards.<sup>7</sup> Of the coach owners, 38.7% pay over 30% of their income for housing, including 21% who pay 40% or more. Coach renters pay significantly less of their income for housing, with 90% paying under 30% and only 10% paying 40% of their income.

Among coach owner subgroups, tenants under 62 years of age are more likely than seniors to pay less than 20% of their income in housing costs, but otherwise the housing burden distribution is similar between age groups. Very low income mobile home tenants, with incomes under \$10,000 pay higher shares of their incomes in housing cost than any other group. Of those earning \$10,000 or less per year, 85% pay over 30% of income for housing and 60% pay over 40%. In contrast only 8.3% of those with incomes over \$20,000 pay more than 30% of their incomes for mobile home housing.

The average ratio of total costs to income is not significantly different between coach owners with and without mortgages, although a somewhat smaller share of the group without mortgages have burdens over 30%. This is somewhat surprising, given the sharply higher total costs for households with mortgages. As shown in Exhibit 2-14, an important part of the explanation is that coach owners with mortgages pay a significantly smaller share of income for their pads than do other owners. Apparently they economize on such things as pad size or park quality and location in order to lower total housing burdens and meet mortgage payments. Coach renters also pay less of their income for rent than do coach owners without mortgages, but for them that translates into lower total cost burdens. Coach owners with mortgages have far less of their total housing costs in the form of rents than do other coach owners or renters. Mortgage paying mobile home park residents will thus be less affected by any change in rent formulas than their counterparts among either





renters or owners without mortgages. Coach renters have more of their housing cost in the form of rent than do all owners together and will thus be the most affected by formula variations.

Exhibit 2-16 compares the costs and cost burdens of mobile home park residents to those of apartment renters. The appropriate comparison is between total housing costs for coach owners and gross rent for conventional renters, since gross rent (contract rent plus utilities) represents the total housing cost for the latter group. Average costs for mobile home owners are a significant \$70 less per month than that of apartment renters. But because apartment renters have higher average incomes than coach owners, the cost-to-income ratios are 5% lower for apartment renters than for mobile home renters. However, this difference is not statistically significant.

Finally, in Exhibit 2-17, 1984 housing cost and burden measures are compared for coach owners to comparable measures for 1977.<sup>8</sup> Pad rents seem to have risen by 8.4% per year over the period since the adoption of rent stabilization. This rent increase represents a combination of adjustments while residents were in place and when pads and coaches were vacated. Annual rent increases for park residents who have stayed where they are now since either 1978 or when they arrived, if that is more recent, were 7.6% per year for coach owners and 7.5% per year for all park residents, for a total of 76.4% over the period. These increases did not differ significantly by whether residents had been in place during the entire period of stabilization or not. Since mobile home residents' average incomes also rose by 7.3% annually during the 1977-1984 period, estimated average rent-to-income and housing-cost-to-income ratios rose only by 5.5% and 8.1% respectively over the period. The changes in those ratios, measuring changes in cost burdens, are not statistically significant. In contrast, gross rents for apartment renters rose by 116.5% in the period, or 10.9% per year, much faster than the rise for either mobile home pad rents or total mobile home housing costs in the same period. But faster rising incomes in the



# EXHIBIT 2-16

## Comparison of 1984 Housing Costs and Burdens, Mobile Home Owners and Apartment Renters

	Mean Value <sup>1</sup>	
	Mobile Home Owners	Apartment Renters
Total housing cost <sup>2</sup>	\$374.27* (16.23)	\$444.39 (4.35)
Housing-cost-to-income ratio <sup>2</sup>	.299 (.025)	.285 (.007)

1. Standard errors in parentheses.
2. For apartment renters, housing cost is contract rent plus utilities; for mobile homes, it includes pad rent, utilities, mortgage payments, property taxes, and maintenance.
- \* Significantly different from conventional renters at the .01 level.

# EXHIBIT 2-17

## Change in Housing Cost Burdens of Mobile Home Owners, 1977-1984

Mean Values <sup>1</sup>	1977	1984	Percent Change (total over 7 years)
Pad rent	\$140.60 (10.16)	\$248.00 (5.49)	76.4%
Total housing cost	\$196.16 (23.66)	\$355.07 <sup>2</sup> (15.25)	81.0%
Rent-to-income ratio	.218 (.042)	.230 (.015)	5.5%
Housing-cost-to-income ratio	.271 (.044)	.293 <sup>2</sup> (.024)	8.1%

1. Standard errors in parentheses.
2. Total costs are different from previous tables because maintenance is excluded in order to match 1977 data in which maintenance cost is not available.



apartment tenant population kept the increase in rent-to-income ratios for these renters to 5.9%, much like the 5.5% change experienced by coach owners.

Recent rent adjustments experienced by mobile home residents who have been in place long enough to have an increase since moving to their current parks reflect the actions of park owners within the constraints of rent stabilization in a situation where vacancies are seldom occurring. Rent adjustments are in general near the standard maximum limits set by the stabilization ordinance but not precisely so. Exhibit 2-18 provides resident reports of the size of their most recent increases. The reported average increase for all residents was 7.2%. For mobile home residents who pay both gas and electric costs themselves, the average, at 7.3%, slightly exceeded the 7% that is allowed without special circumstances. The smaller number of residents who pay one utility had increases of 6.5%, well under the allowed 8% level. Residents paying neither utility themselves averaged 8% increases, again substantially below the 9% limit. The distributions of increases show that most, but not all residents in each category had average increases lower than the lawful limit.<sup>9</sup>

The survey revealed that 88% of the mobile home residents believe that park owners always raise rents to the legal maximum rate but, in contrast to the perceptions of a larger proportion of apartment renters, only 1% believe park owners exceed the maximum. Note that only 28% of the mobile home tenants, compared to 41% of the renters of apartment units, did not know whether or not their mobile home parks are subject to rent stabilization, so that this is likely to be a more knowledgeable group than the apartment tenant group on the provisions of the Ordinance. Ninety percent could identify 7% as the allowable annual increase. Eighty percent reported that increases are annual, and 14% reported that increases occur every two years. Rents were set in written leases just over two-thirds of the time.

Survey results indicate that there is virtually no increasing of fees for amenities as a way of further increasing what residents pay. Less than 2% of all households (i.e., 3 sample



# EXHIBIT 2-18

## Most Recent Rent Adjustments, Mobile Home Residents (in place)

<u>Percent Rent Increases</u>	<u>All Residents</u>	<u>Residents Paying Gas and Electric</u>	<u>Residents Paying Gas or Electric</u>	<u>Residents Paying Neither Utility</u>
Less than 6	24%	23%	33%	17%
6 - 6.99	17	16	20	17
7.00	22	21	20	24
7.01 - 8.00	22	22	20	21
8.01 - 9.00	5	6	3	0
More than 9	11	11	3	21
<hr/>				
Average Value <sup>1</sup>	7.2 (0.2)	7.3 (0.3)	6.5 (0.3)	7.8 (0.5)
<hr/>				

1. Standard errors in parentheses.





households) reported additions to fees compared to the pre-stabilization period. One-quarter of residents reported observing major capital improvements in their parks since 1978, and one-quarter of those said their rents were raised as a result.<sup>10</sup> Nearly 90% of these residents recognize that the rent law does not allow special fees or rent adjustments for maintenance.

#### 2.2.2 Other Changes in the Housing Situation of Mobile Home Residents

The characteristics of current mobile home residents and their housing conditions can be compared to those in 1977, before rent stabilization began in Los Angeles, using the 1977 Annual Housing Survey for data for the earlier period. Exhibit 2-19 indicates that several basic household characteristics have changed little in the period. The average age of households heads was nearly 64 years in 1977, not significantly different from the present 67. Household size is virtually unchanged. Proportions of female heads and the overwhelming predominance of white households also did not change significantly. Mean income grew 64.1%, or about 7.3% annually. This is slower than the 10.5% growth in average household income for renters of apartment units during the same period. The most notable change between 1977 and 1984 is the increase in mobile home residents' length of tenure in their current locations. Average tenure rose from 5.8 to 9.1 years, an increase of 57%.

Housing conditions appear to have changed for the better between 1977 and 1984, on the average, for park residents. Exhibit 2-20 shows that typical coach size grew by more than one full room. Problems with crowding, wiring, plumbing, heating, and overall repair needs declined. Only the presence of mice and rats rose. The decline in reported mobile home repair needs contrasts with the modest increase in need for repairs reported by apartment renters over the same period.

Exhibit 2-21 compares mobile home residents' perceptions of the condition of park surroundings between 1977 and 1984. There appears to have been a slight deterioration in these circum-



# EXHIBIT 2-19

## Comparison of Mobile Home Household Characteristics in 1977 and 1984

<u>Characteristic</u>	<u>1977</u>	<u>1984</u>
Mean age of household head <sup>1</sup>	63.7 (3.1)	67.3 (.08)
Mean total number of people in household <sup>1</sup>	1.67 (.14)	1.64 (.05)
Percent female-headed	38	43
Percent white	95	98
Mean household income <sup>1</sup>	12,142 <sup>2</sup> (1,696)	19,937 <sup>2</sup> (1,270)
Mean length of tenure <sup>1</sup>	5.8 <sup>*</sup> (.76)	9.1 (.36)

---

1. Standard errors in parentheses.

2. Incomes grew at 7.3% per year from 1977 to 1984. The difference between years is statistically significant, but such a test makes little sense because we do not really hypothesize no change over time.

\* Significantly different between years at the .01 level.

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# EXHIBIT 2-20

## Comparison of Housing Conditions, Mobile Homes, 1977 and 1984

<u>Characteristic</u>	<u>1977</u>	<u>1984</u>
Mean number of rooms	4.44 <sup>*</sup> (.02)	3.33 (.28)
Percent overcrowded	5.0 <sup>1</sup>	0.0
Percent wiring not concealed	9.5 <sup>1</sup>	0.5
Percent lack complete plumbing	4.8 <sup>1</sup>	0.0
Percent deficient heating equipment	9.5 <sup>1</sup>	1.1
Percent presence of rats or mice	0.0 <sup>1</sup>	4.8
Percent cracks or holes in walls	0.0 <sup>1</sup>	0.5
Percent holes in floors	0.1 <sup>1</sup>	0.0
Percent perceived in need of repair	9.5 <sup>1</sup>	1.1

- 
1. Small cell sizes prevent satisfactory Chi-Square tests to compare the two years.

\* Statistically significantly difference between years at .01 level.





# EXHIBIT 2-21

## Frequency of Neighborhood Conditions Sufficiently Bad to Cause Mobile Home Residents to Move, 1977 and 1984

<u>Condition</u>	<u>Percentage of Residents</u> <sup>1</sup>	
	<u>1977</u>	<u>1984</u>
Inadequate police or park protection	4.8%	6.4%
Presence of boarded-up or abandoned buildings	0.0	0.5
Trash in street	0.0	4.3
Inadequate neighborhood shopping	9.5	4.8
Inadequate recreation facilities	0.0	1.6

- 
1. Small cell sizes for problem conditions prevent satisfactory Chi-Square tests to compare the two years.



stances on four of five counts - the adequacy of police or park protection, the presence of abandoned buildings, trash in the street and the adequacy of recreation facilities. Shopping availability is the only condition which appears to have improved, although none of the changes is large.

## 2.3 An Analysis of Monetizable Benefits

### 2.3.1 What to Measure Reality Against?

It was not possible to estimate mobile home park residents' monetary benefits from rent stabilization in the same way as was done for apartment renters. Two methods were used for the apartment renter analysis. The first, the concept of "Imputed Rent," compares rent changes between Los Angeles and non-Los Angeles residents. This method could not to be used in the mobile home analysis because it requires a survey of residents outside Los Angeles that was naot commissioned in in the more limited mobile home effort.

The second method uses the concept of "Market Rent" and estimates rents in the absence of rent stabilization based on what recent movers are paying. The theory is that with vacancy decontrols, recent movers are paying market rents. In essence, these rents, adjusted for normal discounts accorded to long-term tenants, were compared to actual rents paid under stabilization to estimate benefits. To analyze Market Rents in the mobile home sector required a substantial population of recent movers -- people who moved during the last year and had not, therefore, had a rent increase since and who, in the case of mobile homes specifically, had moved under circumstances of coach ownership so that the law allowed unrestricted rent increases at the time of vacancy. The sample of 200 mobile home households included not a single household in that category. Even adjusting the entire analysis backward one year yielded no recent movers appropriate to support the analysis.<sup>11</sup> Thus, neither technique for measuring money benefits and costs that was used for apartment renters



could be employed for residents of mobile home parks. The only rough standard that could be applied was the analogy to apartment-renter experience described below.

### 2.3.2 Estimates of the Money Benefits and Costs to Tenants

While direct and precise estimates of monetary benefits to mobile home residents are not obtainable, we can make some rough approximations by taking advantage of the analysis done for apartment renters. One could anticipate greater benefits from rent stabilization among mobile home residents than among apartment renters. The analysis of tenant benefits in the apartment sector shows that long term residents are the major beneficiaries of rent stabilization, while recent movers benefit little or are paying premiums above unstabilized rents because of the operation of the vacancy decontrol provisions of the Ordinance. Since mobile home tenants are mostly individuals with very long average tenure -- two thirds have not moved since rent stabilization began -- and since there are very few recent movers, most should fall into the beneficiary group, as against the premium-paying group. Further, many mobile home tenants who did move have been protected by the 10% cap on rent increases at vacancy for mobile homes in place.<sup>12</sup> Average benefits might therefore be expected to exceed the \$7 to \$18 monthly levels for the average apartment renter. An offsetting factor could be that pad rents are only part of mobile home tenant housing costs and are generally lower than apartment rents.

An approach to estimating the level of benefits is to suppose that in the absence of rent stabilization Los Angeles mobile home pad rents might have risen at about the same rate as apartment rents, which increased at 10.9% per year in Los Angeles and 11.1% outside Los Angeles per year over the period. This 11% annual increase would have raised average rents from \$141 to \$292 per month between 1977 and 1984 for coach owners. Actual rents rose an average of 8.4% per year, however, producing actual 1984 rents of \$248 per month, or \$44 less than the rough market expectation. Thus, one crude estimates of average monthly mobile home



residents benefits is \$44, or 18% of average pad rents. It is interesting to note that the average benefit to long tenured tenants in the apartment sector in 1984 was similar, running between \$47 and \$55 per household per month.<sup>13</sup>

It is also worth noting that 1977 Los Angeles pad rents exceeded those outside Los Angeles by about \$28 per month and the limited data in the following Chapter suggest these rents have now about equalized. If Los Angeles rents would have risen, absent stabilization, at non-Los Angeles rates, then \$28 per month provides another rough estimate of the average net benefit to City residents.

For information on perceptions of benefits from rent stabilization residents were asked if they thought rents would rise in the absence of stabilization. 79% said that they would. They were also asked to estimate what they thought their own rents would be if there were no rent stabilization. Exhibit 2-22 indicates that they would expect their rents to increase by an average of 69%. If these estimates were correct, average households would be benefiting by nearly \$160 per month or nearly \$1,900 per year, from stabilization. Note, however, that tenants of apartments estimated the dollar savings they were receiving from rent stabilization at figures between 7 to 20 times higher than our estimates suggest that savings actually were in 1984.<sup>14</sup>

Park owners had very different views. When asked what they thought rent levels would be in the absence of rent stabilization, most owners gave either a number or a range (within which we used the midpoint). The increases stated ranged as high as 80%, though four landlords said that they would leave rents about the same. Comparing these estimates to 1983 actual rents produced an average estimated 26% expected increase without stabilization. Taking into account 1984 adjustments of about 7%, this would produce rent levels slightly less than 20% over current levels. Perhaps more important than this very rough approximation is a recognition of variation. Park owners reported that increases would





## EXHIBIT 2-22

### Mobile Home Resident Estimates of Rents in Absence of Rent Control

	Mean Values <sup>1</sup>		
	Actual Rent	Rent Estimate with- out Stabilization	Ratio of no-stabiliza- tion to actual rent <sup>2</sup>
All residents	246.93 (5.25)	403.94 (16.25)	1.69 (0.06)
Coach owners <sup>3</sup>	248.00 (5.49)	409.87 (16.66)	1.69 (0.06)

- 
1. Standard errors in parentheses.
  2. This is the average of increases for individual households and is therefore not precisely equal to the ratio of the figures in the first two columns.
  3. Only four coach renters answered the question of estimated rents without stabilization.



vary within parks. Pad rents at the lower end of a given park's current range, protected by longer length of continuing occupancy, would be raised by substantially more than others.

### 2.3.3 Financial Benefits Perceived by Tenants

Even with rent stabilization in place, mobile home residents have mixed feelings about the level of rents they are paying. As Exhibit 2-23 shows, one-quarter are very satisfied with current rents and a majority are at least somewhat satisfied. But over 40% are dissatisfied, compared to only 26% of the renters of apartments. Dissatisfaction with rents also exceeds the level of dissatisfaction with other aspects of park operation. On the other hand, coach owners generally do feel protected from major losses in coach value given current rent increases -- values which are the other primary component of potential monetary effects. Exhibit 2-24 indicates that a majority feels that rent increases are now having little or no effect on coach value, and few feel that the effect is a significant reduction.

## 2.4 Non-Monetizable Benefits and Costs

One of the principal potential non-monetary benefits of rent stabilization is protection to residents from the possible need to move in response to rents increases. Mean length of tenure among mobile home park residents rose substantially from 1977 to 1984, from less than 6 to over 9 years, and only one-half of one percent of the residents had moved during the year prior to our survey. Residents seem to attribute this stability to rent stabilization. Exhibit 2-25 indicates that from the view point of 35% of the mobile home residents, the two effects of rent stabilization most commonly known to have happened to or been heard about by tenants are that residents have been able to stay in place when high rents would otherwise have made staying unaffordable (#1 in the table) and observed increases in park stability and security (#7).



EXHIBIT 2-23

Residents' Satisfaction with Rent Levels

<u>Level of Satisfaction</u>	<u>Percent of Residents</u>
Very satisfied	24.6%
Somewhat satisfied	33.7
Somewhat dissatisfied	25.7
Very dissatisfied	16.0

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EXHIBIT 2-24

Coach Owners' Estimates of Rent Increase  
Effects on Coach Values

<u>Extent of Effect on Value</u>	<u>Percent of Residents</u>
Little or none	65.2%
Reduces value somewhat	23.4
Reduces value significantly	11.4





# EXHIBIT 2-25

## Mobile Home Residents' Perceptions of Rent Stabilization Impacts

<u>Effect of Rent Stabilization</u>	<u>Happened to Me or Friend</u>	<u>Heard About</u>	<u>No Knowledge</u>
1. Tenants able to stay in parks they could not otherwise afford	7.6%	38.6%	53.8%
2. Parks run down because owners lack incentive to keep up	2.4	21.4	76.2
3. Large families can rent in parks that otherwise would not let them in	1.8	17.2	81.0
4. Reduced turnover locks minorities and others into ghettos	1.2	14.7	84.1
5. Prevents unfair evictions	1.8	36.9	60.7
6. Makes enemies of tenants and landlords	4.8	21.1	74.1
7. Increases park stability and security	4.9	45.7	49.4
8. Keeps new parks from being constructed	0.6	24.1	75.3
9. Helps retain a mix of higher and lower income residents	1.8	33.5	64.7
10. Encourages landlords to find ways around the law	3.7	21.1	75.2



There are other indications of the significance of the security-of-tenure benefit from rent stabilization. For 82% of mobile home residents, their current location is the first mobile home residence they have had. Most are elderly people who have left other living arrangements for their current homes. When asked to consider problems they would face in moving, 38% thought they would have trouble finding an affordable place, compared to 10% who were concerned with finding a vacancy and less than 5% who would be concerned with other factors of home size, location, moving expenses, and coach buying and selling.

Another potential benefit of the rent stabilization law related to tenure security, is protection from evictions. Ninety-three percent of mobile home residents who had an opinion said that they believe the rent law protects tenants from eviction in some way. And, they perceived eviction protection as the third most common effect of rent stabilization after the security-of-tenure issues already mentioned. Next in order of frequency of perceived effects was maintenance of a healthy income mix in parks. Overall three-quarters of the mobile home residents surveyed identified rent stabilization as having no negative effects.

Residents were also asked to indicate the most important benefits and harms generated by rent stabilization, in open-ended questioning. Exhibit 2-26 reports their responses. Fifty-five percent of residents offered no answer when asked to name the most important benefit. Of the remainder, 78.6% said that control of rent levels was the primary benefit, and nearly 90% identified controlling rent or aid in making housing affordable as most important.

Only 10% of park residents volunteered any effect as the most important harm of rent stabilization. Exhibit 2-27 reports these results. Of those who responded, the largest share thought the most important harm was in having too high a rate of allowable rent increase set by the rent law.



## EXHIBIT 2-26

Most Important Benefit of Rent Stabilization:  
Resident Open-ended Perception

<u>Benefit</u>	<u>Percent of Those Residents Who Offered a Response</u>	<u>Percent of All Residents Interviewed</u>
Security	5.9%	2.7%
Rent level controlled	78.6	35.3
Aids in affording housing	10.7	4.8
Protects against evictions	1.2	0.5
Provides peace of mind	1.2	0.5
Helps fixed income people	2.4	1.1
No response	n.a.	55.1

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## EXHIBIT 2-27

Most Important Harm of Rent Stabilization:  
Resident Open-ended Perception

<u>Harm</u>	<u>Percent of Those Residents Who Offered a Response</u>	<u>Percent of All Residents Interviewed</u>
Rent increase every year	16.6%	1.6%
Bad maintenance	16.6	1.6
7% increase too high	44.4	4.3
Heightens housing shortage	5.6	0.5
Hurts senior citizens	16.6	1.1
Makes tenants unhappy	5.6	0.5
No response	n.a.	90.4



It seems clear that in mobile home residents' view, rent stabilization is of substantially more benefit than harm. The principal perceived effects are in holding down rents, improving affordability, and as a result providing added ability to remain in their residences.

## **2.5 Summary of Benefit/Cost Flows**

Our analyses of the mobile home tenant population indicates that mobile home residents are quite different from apartment renters. In particular, they are far more often elderly than are other renters, with households heads' average age at 67 years. They are also significantly less mobile - park resident mobility has fallen in recent years and the average length of tenure of mobile home renters is 9 years, significantly greater than that of other renters.

In general residents find most aspects of park operation and housing conditions quite satisfactory. They report that their mobile homes are in good condition, and of sufficient size, with fewer problems than apartment rentals. They also are largely satisfied with most aspects of park management and surroundings, concerned only about the high cost of rents.

Since in the other renter population most of the benefits of rent stabilization were delivered to residents with long tenure, it is possible that this is a sector to which substantial benefits have been delivered by rent stabilization. And, since there appears to be only very limited mobility, it could be assumed that the incidence of cross subsidization among tenants, which occurs in the apartment rental sector because of vacancy decontrol and consequent premium rents paid by some movers, is very low. Thus one might guess that there is a reasonably robust net subsidy flowing from landlords to tenants. Unfortunately, the stability of the mobile home resident population is such that it is possible only to create a very gross measure of the size of this benefit. We know that on average coach-owning residents (who constitute the overwhelming majority of park residents com-





pared to those who rent both coach and pad) pay an average of \$248 per month as pad rent and have total housing costs of 50% more than that, or almost \$375 per month. We know that this means that on average they pay 30% of their income for housing, just at the level which has generally been defined as "affordable." And we know that park tenants believe that rent stabilization has prevented substantial rent increases from occurring -- increases of about 69% amounting to \$160 per month or \$1,900 per year, from stabilization. Most park owners also believe that rents would have risen without stabilization, but estimate that increase at well below the tenant estimated figure at about 20% over current levels once utility pass throughs are excluded. If it is assumed that mobile home rents would have risen at the same rate as apartment rents in areas without rent stabilization, we estimate that without stabilization rents would have increased 11%, from \$141 to \$292 from 1977-1984 and that compared to actual current rents, this implies a savings of \$44 per month, quite similar to the savings for long tenured tenants in conventional apartments under stabilization.



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<sup>1</sup>Very low income households are defined as those with an income that is less than 50% of the SMSA median for a family of four. Similarly a low income household would have an income between 50% and 80% of the SMSA median, again for a family of four, while a moderate income household had an income between 80% and 120% of the median. Somewhat higher or lower standards are applied for smaller or larger households. Due to the nature of the tenant data, established HUD income cut-offs must be rounded to the nearest \$5,000. This results in the following set of income cut-offs:

<u>Hsehld Size</u>	<u>Very Low Income</u>	<u>Low Income</u>	<u>Moderate Income</u>
1 Person	\$10,000	\$15,000	\$20,000
2	10,000	20,000	25,000
3	15,000	20,000	30,000
4	15,000	25,000	35,000
5	15,000	25,000	35,000
6	15,000	25,000	40,000
7	20,000	30,000	40,000
8+	20,000	30,000	40,000

<sup>2</sup>Park size is implicitly weighted upward when randomly surveying residents, rather than parks, precisely because large parks have more occupants. The average park size in Los Angeles according to City records is 89 units.

<sup>3</sup>A straight calculation, including two large fees reported, produces an average of \$4 per household. However, the overwhelming majority of mobile home tenants pay no improvement fees.

<sup>4</sup>This difference is statistically significant at the .05 level.

<sup>5</sup>Since different residents responded to different questions and left others blank, it is not possible to add or subtract between rows of Exhibit 2-13 to obtain other measures.

<sup>6</sup>Total cost must be computed for each household individually and, therefore, these results are only for the smaller number of households who reported every component. The implicit income foregone from equity and the benefit of rising coach prices is necessarily omitted here.

<sup>7</sup>Current Federal housing programs treat "affordable housing" as housing that costs no more than 30% of household income. The housing amendments contained in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) increased maximum tenant contributions to rent in Federal Public Housing and Section 8 programs from 25% to 30% of tenant income. The 30% standard was made effective for new tenants beginning August 1, 1982.

<sup>8</sup>The 1977 Annual Housing Survey does not contain data on any coach renters.



<sup>9</sup>This is different from the results for apartment renters but note that here no movers are included who paid unregulated rents to occupy vacant units.

<sup>10</sup>The associated rent rise is an anomalous finding, given that residents elsewhere in the survey stated that in virtually no case was there a part of rent identifiable as going for capital improvements.

<sup>11</sup>There were three movers in the previous year, none of whom had had their rents changed subject to full vacancy decontrol.

<sup>12</sup>Note that prior to the adoption of the 10% cap the Ordinance restricted rent increases to 7%, so longer term tenants in mobile home parks received even greater protection than did later movers.

<sup>13</sup>If rent stabilization did not exist, the average rent paid by this group of apartment renters would be 14% - 16% higher than the rents they paid in 1984.

<sup>14</sup>This result arose, however, in part from the fact that few tenants believed that stabilization could actually result in higher rent charges than they would experience if there were no such program. The analysis of apartment renters indicates, however, that a substantial numbers of tenants did in fact pay higher than unstabilized rents in that year.



### CHAPTER 3

## THE IMPACT OF RENT STABILIZATION ON LOS ANGELES MOBILE HOME PARK OWNERS AND OPERATORS

This Chapter explores the impacts of rent stabilization on the financial characteristics of Los Angeles mobile home park owners and operators, and on the returns realized by the owners of these properties. First, we examine the rate of return generated by park owners inside the City, at least insofar as the very limited data allow.<sup>1</sup> Second, we describe the park landlord survey and the conditions and operations of the parks in the sample. Third, we look in detail at the current (1983) financial condition of mobile home parks inside the City, including income and expenses, property values, equity and mortgage finance arrangements. The situation of parks inside the City is then compared to those outside Los Angeles. The Chapter concludes with a brief summary of findings.

### 3.1 Rates of Return on Mobile Home Parks

It is not possible to compute rates of return on mobile home parks that correspond to those computed for conventional apartments. In the analysis of apartment properties, information about residential property sales was available for each year from 1970 to 1984 from the Society of Real Estate Appraisers and the DAMAR Corporation. No comparable source is available to provide information about property appreciation at time of sale in the mobile home sector. We therefore can only estimate partial returns based on current income flows, neglecting appreciating, using data from the park owner survey.

The pre-tax returns in the table below compare net operating income to current value, cash flow to current equity and net operating income to original purchase price, respectively. NOI, NCF and purchase price are as reported by park owners; current value and equity are not from records of actual sales but from





owner estimates of current property values. Without appreciation data, these measures represent only a part of the total current returns to park owners. In considering only current incomes, they also neglect the stream of past incomes since purchase that would also enter into an investor's conventional calculation of his/her rate of return over time.

SIMPLE RATES OF RETURN IN LOS ANGELES  
MOBILE HOME PARKS  
(Without Appreciation)

<u>Type of Before Tax Return</u>	<u>Rate of Return</u>
NOI/current values	7.2%
NCF/current equity	6.1%
NOI/purchase price	20.6%

The ratio of NOI to current value corresponds to a similar computation of partial pre-tax returns on apartment properties. The 7.2% return for mobile home parks exceeds the 6.0% return for apartment buildings. It should be remembered that returns on current value do not represent what typical investors realized on their equity. That would require a more complex internal rate of return computation, based on initial investment. Return on current value better represents the market adjustment of values to the stream of expected income.

We can estimate appreciation of mobile home park values over the full length of current owners' holdings to the present, using purchase price and estimated current value of the mobile home park data from the park owner survey. For the nine parks for which both purchase price and estimated current value are available, average purchase price per park was \$512,688 and current value is estimated at \$996,445. This is an increase of 94%. The average period since purchase is 15.2 years. This appreciation record is similar to that reported by apartment landlords for conventional apartment buildings, whose appreciation per building was 107% during an average holding period of 14.6 years. We know



from the DAMAR data for apartments that appreciation of apartment buildings, based on sales prices, may be higher than landlord estimates from the survey of apartment owners.<sup>2</sup> The same may or may not be true of mobile home park owner estimates compared to actual sales prices. The 94% appreciation figure does suggest that long term mobile home park appreciation may have been similar to that of apartment properties. If that were true and remained true in 1983-84, total before tax return on current value for mobile home parks, combining NOI and appreciation, may have been similar to Los Angeles apartment return in 1983-84, or about 16%

### **3.2 Current Income and Expense Patterns in Rent-Stabilized Mobile Home Parks**

#### **3.2.1 The Survey of Mobile Home Park Owners**

As part of the study a detailed survey of mobile home park income and expenses was fielded to the owners of all 68 mobile home parks in Los Angeles and to 20 park owners in surrounding unstabilized areas. A total of 18 owners responded to the survey, 12 owners or managers in the City of Los Angeles and six outside. The unstabilized cities surveyed in this sample were the same as those used elsewhere in the analysis of the impacts of rent stabilization, and included Long Beach, Torrance, Glendale, Inglewood and Burbank. (Pasadena has no parks.) Responses were received only from park owners in Inglewood and in Long Beach. Two of the Los Angeles surveys were subsequently dropped from the financial portions of the analysis due to incomplete financial data, but were used for other descriptive purposes. One of the surveys of parks outside the City was also dropped entirely because the park it applied to was primarily used as a temporary residence for recreational vehicles. The responding Los Angeles parks contained 1,226 pads of which 1,005 were in the 10 parks providing financial information. The five parks outside Los Angeles contained 773 pads. The grand total was 17 parks with 1,999 pads in the full sample.



The responding Los Angeles park owners manage parks of moderate size, averaging 102 pads on about 10 acres. This is not substantially different from the average size for all 68 Los Angeles parks, which have an average of 89 pads each. Thus, in terms of the one measure available for both sample parks and the full population, the sample parks are quite representative. Park scale does range widely in the sample, from a park with fewer than 30 pads to one with nearly 200, but this represents a similarly wide range in size in the population, where parks actually range from some with under 10 pads to others with more than 260.

All of the pads are used for permanent mobile home occupancy only (not temporary or recreation vehicles). All but one of the parks allocate one or two pads to park employees or to the owner. None of these parks in the owner survey owned and rented out coaches; with the exception of one employee pad and coach rental, park owners in the sample rented out only pads.

The basic information presented on this sample indicates that most parks are filled to capacity. Each pad has a coach on it. A total of only two current vacancies were noted out of 1,226 pads inside the City of Los Angeles. Seven percent of the pads had changed occupants during the previous year, a higher turnover rate than reported by park residents but still low compared to apartment turnover. Ninety percent of these changes involved new residents purchasing coaches from their previous owners. Only 6% of the changes involved coach owners moving in coaches from other places, and these few cases were all located in two parks. One-third of the parks have waiting lists. Coaches up for sale were believed to be sold in about three months (and some owners report that this period has been decreasing with declining interest rates). Parks outside the City showed similarly low rates of resident turnover and rapid coach sale rates even absent rent stabilization.

The owners or managers in the parks see their residents as predominantly elderly; about three-quarters of the households are said to include an elderly person. This is consistent with the results of the mobile home resident survey. Park owners' impres-





sion of resident income is dispersed among the 46% who see the typical resident as in the \$11,000 to \$20,000, the 36% who cite the range at \$21,000 to \$30,000, and the 18% who believe the range is \$31,000 to \$40,000. The median observation is just within the \$21,000 to \$30,000 category. This is higher than the \$17,000 median income reported by residents.

In 10 of the 12 Los Angeles parks on which detailed information is available, the park operator owns the land and improvements outright. Two hold a leasehold interest only. Two-thirds of the owners live in the City of Los Angeles but only one lives within his park. Four of the owners own other rental property in the City of Los Angeles, three owning other mobile home parks and one owning apartments, generating total holdings of 200 to 500 units each, beyond those reported on here. Three owners are also mobile home dealers, and two of those support the notion that local mobile home sales are discouraged by a shortage of mobile home parks while the other disagrees. Exhibit 3-1 shows that management by the owner is most common management form. In four of the five cases of owner-management, the owner undertakes routine maintenance himself.

Owners report that the pads they rent virtually all come under the Los Angeles rent stabilization ordinance. Four of the owners (33%) have applied at some time for a special rent increase under the City's Capital Improvement, Rehabilitation, or Just and Reasonable regulations. All but one of these applications was approved in unmodified form. During the full period of rent stabilization's operation 15 evictions took place among all the parks, requiring a total of five court appearances.

Exhibit 3-2 shows the dates of park construction. Park ages range from about 40 years to less than 10. Almost half were developed in the 1960s; none has been created during the period of rent stabilization. Exhibit 3-3 reports owner ratings of park conditions. 58% percent of the owners reported that their parks are in superior or above average condition, while one-quarter





EXHIBIT 3-1  
Who Manages the Park

<u>Manager</u>	<u>Percent of Parks</u>
Owner	50%
Individual, paid directly by owner and living in park	30%
Individual, paid directly by owner but living elsewhere	10%
Management firm	10%



EXHIBIT 3-2  
Date of Park Construction

<u>Period</u>	<u>Percentage of Parks</u>
1940-1949	25.0%
1950-1959	16.7
1960-1969	41.7
1970-1978	16.7

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EXHIBIT 3-3  
Park Condition (Owner Ratings)

<u>Condition Rating</u>	<u>Percentage of Parks</u>
Superior	25.0%
Above Average	33.3
Average	16.7
Needs Improvement	25.0



indicated that the parks need improvements. These generally good conditions are consistent with residents' previously reported satisfaction with park conditions and maintenance.

Most owners indicate that they are spending more on maintenance currently than in the previous year: two-thirds say "more," one-third say the same. Overall, owners estimate they have made capital improvements expenditures of about \$740 per pad since 1977. These expenditures vary among the reporting parks, from a low of about \$120 per pad to a high of over \$1,500 per pad; but most are in the \$200 to \$500 range, with a single reported expenditure of \$1,500 per pad in one park pushing up the average. Capital improvements needed currently are estimated to be just below \$400 per pad. The most frequently cited improvement item is a need for repaving. Seventy-three percent of the park owners plan to make the improvements they have identified as needed.

Responses regarding park condition and related expenditures were compared for City of Los Angeles parks and non-Los Angeles parks not under rent stabilization. Exhibit 3-4 compares parks in and outside the City along several dimensions. Park conditions are more highly rated by their owners in City parks than outside, with 58% of the Los Angeles owners, as compared with 40% of the owners of parks in other cities, regarding their parks as in superior or above average condition. Maintenance expenditures are increasing in both locations. Owner estimates of the cost of needed capital improvements per pad average \$122 lower in the City than in parks outside. Park owners express equally positive expectations about being able to make such improvements. The data cannot be interpreted to mean that Los Angeles parks are in better repair than their neighbors, since even the \$122 is not statistically significant at this very small sample size. However, the data do not provide support for the hypothesis that City parks are in worse repair or that disinvestment is occurring at a rate faster than those in surrounding cities.



EXHIBIT 3-4

Park Upkeep, Los Angeles and  
non-Los Angeles Parks

<u>Condition</u>	<u>L.A.</u>	<u>Outside L.A.</u>
Park condition superior or above average	58.3%	40.0%
Maintenance expenditures same as or higher than previous year	100.0%	100.0%
Capital improvements needed (mean amount per pad)	\$395	\$517
Plan to make needed capital improvements	72.7%	75.0%





### 3.2.2 Mobile Home Park Income and Expenses in 1983

Ten mobile home park owners provided complete or nearly complete information about their parks' financial status.

Exhibit 3-5 presents some basic information on the average income and expenditures of mobile home parks reported in the survey by owners of parks inside Los Angeles during 1983. The left-hand column of the table indicates the annual average per park for each income component. Because parks of different sizes have differering incomes, we provide averages per pad in the right-hand column. The per pad averages are computed by dividing each park's total by its number of pads and then computing a weighted average across parks, weighted by the number of pads.

The Exhibit shows that total income averages \$2,725 per pad and \$274,000 per park. Eight-seven percent of this income is derived from pad rents. The annual pad rent per space comes to \$196 per month, 21% lower than the \$248 per month reported by the coach-owner residents surveyed, but far less different from tenant reports than were the rents and incomes reported by apartment renters and apartment owners.<sup>3</sup> Reported total incomes for entire parks vary from over \$60,000 to more than ten times that much. Income per pad varies from less than \$100 per month in one park to nearly four times that in another.

Most other forms of income are of little relative significance. Pad rent is 86% of total per pad income on the average. The other income component of significance is utility income. Eight of the 10 reporting owners collect some component of their residents' utility costs from the residents and then pass those payments through to utility suppliers. Utility collections amount to 10% of total income. Total income net of utility collections is provided in the last row of Exhibit 3-5. It closely matches pad rents at \$246,000 per park and \$2,450 per pad per year.

Operating expenses are reported in Exhibit 3-6. Total operating expenses include salaries and benefits, utility expenses, management expenses, parts and supplies, contract maintenance and repairs, taxes and fees, and insurance. In computing this total,



EXHIBIT 3-5  
Mean Incomes<sup>1</sup> for Mobile Home Parks  
Los Angeles, 1983

	<u>Per Park</u>	<u>Per Pad</u>
Total income	\$273,877 (71,918)	\$2,725 (273)
Pad rents <sup>2</sup>	238,194 (69,323)	2,351 (288)
Coach rents	0 (0)	0 (0)
Commercial income	89 (89)	0.87 (1.11)
Utility income	27,893 (14,445)	278 (85)
Fees for services	1,258 (528)	12 (4)
Other property income	540 (284)	5.3 (2.5)
Total income net of utility income	245,984 (62,360)	2,448 (266)

---

1. Numbers in parentheses are standard errors.

2. Pad rent has one less observation than do other figures in this table. As a result, the sum of pad rents and other incomes will not add exactly to total incomes.



# EXHIBIT 3-6

## Mean Operating Expense for Mobile Home Parks, Total and Major Components, Los Angeles, 1983

	<u>Per Park</u>	<u>Per Pad</u>
Total operating expenses, net of utility income	\$91,724 (23,070)	\$913 (127)
Salaries and benefits	24,678 (9,651)	245 (64)
Utilities, net of utility income	25,160 (6,162)	250 (53)
Management	12,800 (3,965)	127 (19)
Parts and supplies	3,248 (1,369)	32 (13)
Contracted maintenance and repair	8,695 (3,746)	86 (24)
Taxes and fees	14,258 (2,986)	142 (8)
Insurance	2,885 (733)	29 (3)

---

Note: Standard errors in parentheses



utility expenses corresponding to utility income collected by owners from residents to pass through to utilities were deducted. The utilities expense component also represents expense with the pass-through deducted. Total operating expenses (thus adjusted) average \$92,000 per park and about \$900 per pad annually. Like park incomes, operating expenses vary widely. On a per park basis, total operating expenses vary over a ten-fold range; on a per pad basis the highest expense total was four times the lowest.

The largest categories of expenses are utilities -- including electric, gas, water and sewer, telephone, and garbage collection -- and salaries, including those of managerial and other personnel, and foregone rent for employee residences. These are followed by taxes (predominantly property taxes) and management expenses (advertising, legal, accounting, office, etc.).

Exhibit 3-7 provides subcomponent breakdowns for those non-utility operating expenses for which more detailed data were obtained. In addition to the operating cost components listed in Exhibit 3-6, park owners reported replacement costs for appliances and similar items of less than \$25 per pad. These were considered a capital cost in this study. One owner had a further non-finance expense in the form of a lease payment.

Exhibit 3-8a shows the share of total operating expenses consumed by each major component. The left-hand column percentages are the ratio of average expenditures on a component from all parks to average total operating expenses for all parks. This method of computation reduces the impact of any individual park with unusual characteristics on the resulting share. The right-hand column results from first computing the share of total expense for a component for each park and then averaging over all parks. The fact that these two measures differ little is encouraging regarding the stability of cost component share estimates. Table 3-8b indicates that total operating expenses are about 40% of total income, whether calculated on a per park or per pad base, and whether creating a ratio of averages or an average of ratios.





EXHIBIT 3-7

Subcomponents of Operating Expenses for  
Mobile Home Parks, Los Angeles, 1983

	<u>Mean per pad</u>
Salaries and benefits	
Management personnel	\$187
Other personnel	21
Foregone rents for employee residence	37
Total	<u>\$245</u>
 Taxes and fees	
Property taxes	\$127
Business license tax	7
Other	8
Total	<u>\$142</u>



# EXHIBIT 3-8a

Shares of Operating Cost Components in  
Total Operating Costs of Los Angeles  
Mobile Home Parks, 1983

	<u>Ratio or Averages Method</u>	<u>Average of Ratios Method</u>
Salaries and benefits	.27	.25
Utilities	.27	.29
Management	.14	.12
Parts and supplies	.04	.05
Contracted maintenance and repair	.09	.07
Taxes and fees	.16	.17
Insurance	.03	.04

# EXHIBIT 3-8b

Share of Total Income Going to Operating Costs,  
Los Angeles Mobile Home Parks, 1983

	<u>Per Park</u>	<u>Per Pad</u>
Ratio of averages method	.37	.37
Average of ratios method	.40	.38



Income and expense data were combined to compute net operating income and net cash flows for the City's mobile home parks. Net operating income (NOI) is defined as total income minus operating expenses minus lease payments (for parks that had them).<sup>4</sup> The funds remaining principally cover debt service and profit. Net cash flow (before taxes) is defined as net operating income less total finance costs, and measures the volume of funds left to owners once all park costs are paid.

Exhibit 3-9 indicates that net operating income was \$148,000 per park per year, and close to \$1,500 per pad. Net operating income was positive for every reporting park. NOI amounted to 60% of total income, adjusted for utility pass-throughs on both park and weighted pad bases, and ranged from 39% to 70% of income in specific parks. Net cash flow was \$92,000 per park and \$1,000 per pad. Cash flow amounted to 40% of total income on average. Every park in the sample had a positive net cash flow. But cash flow did vary widely as a share of income, from 8% to 65%.

### 3.2.3 Property Values and Equity Investments

Exhibit 3-10 indicates that owners paid about \$6,000 per pad on average for their mobile home parks. Prices varied from less than \$350 to over \$10,000 per pad, with much lower prices for parks purchased in the 1950s. Owners' current estimates of value are that the pads in park use are worth \$18,000 per pad. For those park owners reporting both purchase price and current value this is about twice purchase price, or a 94% increase.<sup>5</sup> Owners' per pad estimates of the value of their park land if devoted to potential alternative land uses average \$34,000 per pad, close to twice as large as the estimates of use for mobile home parks. Current indebtedness is reportedly about \$3,600 per pad. Thus, current equity in parks, assuming that they continue in mobile home park use, is estimated by owners to be is about \$14,600 per pad, or close to \$30,400 per pad in non-mobile home park uses.



# EXHIBIT 3-9

## Mean Net Operating Income and Net Cash Flow, Los Angeles Mobile Home Parks, 1983

	<u>Per Park</u> <sup>1</sup>	<u>Per Pad</u> <sup>1</sup>
Net operating income <sup>2</sup>	\$148,348 (40,003)	\$1,476 (171)
Ratio of NOI to total income <sup>3</sup>	.59 (.03)	.60 (.03)
Share with positive NOI	100%	100%
Net cash flow <sup>2</sup>	\$91,886 (28,552)	\$1,017 (153)
Ratio of net cash flow to total income <sup>3</sup>	.40 (.06)	.41 (.05)
Share with positive cash flow	100%	100%

- 
1. Numbers in parentheses are standard errors.
  2. NOI uses 10 observations; NCF uses only 9 because of missing finance cost data.
  3. Ratios of NOI and cash flow to income are the average of ratios for individual parks. Using the ratio of averages produces essentially identical results of .60 and .41 (per park or pad) respectively. Note that the NCF ratio computation again uses only the 9 observations for which both NCF and total income are known.





# EXHIBIT 3-10

## Mean Purchase Price, Equity, and Debt, Los Angeles Mobile Home Parks

	<u>Per Park</u> <sup>1</sup>	<u>Per Pad</u> <sup>1</sup>
Purchase price <sup>2</sup>	\$ 512,688 (223,819)	\$ 6,076 (1,273)
Current value in mobile home park use	1,296,445 (310,781)	18,202 (1,851)
Current value in other use	2,420,556 (795,442)	33,896 (6,105)
Current indebtedness	255,900 (109,582)	3,593 (863)
Current equity in mobile home park use	1,040,545 (197,306)	14,609 (1,580)
Current equity in alternative use	2,164,656 (707,136)	30,393 (5,566)

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1. Standard errors in parentheses.

2. Purchase price is not strictly comparable to other variables in table because it involves one less observation.



#### 3.2.4 Mortgage Financing Arrangements

Reported park owner financing costs consist entirely of principal and interest on current mortgages. Exhibit 3-11 indicates that annual debt service for the parks which reported such costs is \$431 per pad, amounting to 18% of total park income. Financing cost is thus less than half of operating expenses per pad. The low mean financing expense reflects the absence of any debt service for a third of the sample parks reporting. Of the 10 responding, three owners paid cash for their parks many years ago and have never borrowed. Four have had only a single first mortgage used for purchase, only one of which has a balloon payment at the end. Two owners used first and second mortgages for purchase, with one each having a balloon. One added a second mortgage for capital improvements after purchasing with a first. Most loans are for 10 to 20 years, at fixed rates differing with date of borrowing.

#### 3.2.5 Comparison of Los Angeles Mobile Home Park Owner Data to Survey Data for Mobile Home Parks Outside Los Angeles

The financial status of Los Angeles mobile home parks can be compared with that of parks in non-rent-stabilized locations to provide indications of the impact of stabilization. We are, as indicated earlier, limited in performing the comparison to use of surveys obtained from five mobile home parks outside Los Angeles. Exhibit 3-12 summarizes the financial comparison, repeating data for key measures of financial condition in Los Angeles parks from other exhibits and providing parallel non-Los Angeles figures. All the averages are presented on a per pad basis, so that the comparisons do not simply reflect differences in park size between locations.

The primary finding is one of substantial similarity between average park financial status inside and outside Los Angeles. Total incomes differ by less than 5% and pad rents by less than 3%, with Los Angeles levels higher in each case but not by statistically significant margins. Differences in net operating



EXHIBIT 3-11

Mean Financing Costs in  
Los Angeles Mobile Home Parks, 1983

	<u>Per Park</u>	<u>Per Pad</u>
Total financing costs	\$38,977 (13,164)	\$431 (91)
Mortgage principal	18,048 (10,096)	200 (59)
Mortgage interest	20,873 (6,794)	231 (75)
Ratio of financing costs to total income	.18 (.06)	.18 (.04)

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Note: Standard errors in parentheses



EXHIBIT 3-12

Comparison of Key Measures of Financial Status,  
Los Angeles and Non-Los Angeles Mobile Home Parks, 1983

	Mean Value Per Pad	
	Los Angeles	Outside Los Angeles
Total income <sup>2</sup>	\$2,448 (266)	\$2,339 (237)
Pad rent	2,351 (288)	2,294 <sup>3</sup> (258)
Total operating expense <sup>2</sup>	913 (127)	644 (99)
Net operating income <sup>4</sup>	1,476 (171)	1,454 (137)
Net cash flow	1,017 (153)	1,006 (129)
Ratio of operating expense to total income <sup>2</sup>	.38 (.04)	.29 (.05)
Ratio of net operating income to total income <sup>2</sup>	.59 (.03)	.65 (.06)
Ratio of net cash flow to total income <sup>2</sup>	.41 (.05)	.43 (.04)

1. Standard errors in parentheses.

2. Net of utility pass-throughs.

3. After removing rents of the small number of pads rented with coaches.

4. Net operating income equals total income minus total operating expense minus payments for leasing for parks operated as leaseholds. As a result, total income less operating expenses will not equal NOI in the table.





income and net cash flow between locations are each less than 2%.

Operating expenses differ more widely, in absolute size and as a percentage of total income. Operating expenses are 29% lower in parks outside Los Angeles than in parks inside Los Angeles. But none of those differences, including those in operating expenses, is statistically significant. The closer match of net operating income and net cash flow than of operating expenses reflects the fact that owners outside Los Angeles pay higher average expenses for park leasing, and these expenses partly offset the lower operating costs, bringing net operating income into in parks inside and outside the City into a close match.

The last two rows of Exhibit 3-12 show further that the relationships of costs to incomes are quite similar inside and outside the City. Net operating income as a share of total income is only very modestly higher outside Los Angeles than inside, and cash flow as a share of income inside and outside the City are close to identical. Neither of these ratios differs in a statistically significant way when parks inside and outside of the City are compared.

In sum, Los Angeles parks under stabilization are generating total incomes, incomes after operating and lease expenses, and incomes after both of those plus financing expenses that are comparable to the corresponding figures reported by their unstabilized neighbors. It is possible that this represents a change of condition from previous periods, from owner expectations in relation to some other measure of investment, or in some other respect that might show up in time series data. But the available figures for the year 1983, with the limitations noted, do not show any systematic difference.

### 3.3 Summary of Probable Impact

Despite the fragmentary nature of the data collected from mobile home park owners, some broad conclusions are suggested. First, park owners, like park residents, rate their parks as in generally good condition and, by various measures, their condi-



tion rates compared favorably to non-Los Angeles mobile home parks not subject to rent regulation. There is little sign, either from tenants or owners, of disinvestment and deterioration.

Given the absence of sufficient historical data, it is not possible to determine whether the mobile park owner has experienced a notch effect similar to that experienced by apartment owners, in which returns decreased after the passage of rent stabilization but have increased since then, nor is it possible to determine the impact of Proposition 13 on the degree of health of mobile home park properties. But, the analysis indicates that, whatever happened in the period from 1977 to 1983, the current financial situation of park owners, at least in terms of net cash flow, is not very different from the situation of park owners outside Los Angeles. The great bulk of park incomes comes from pad rents. Operating expenses use about two fifths of this income. After paying for financing and leasing costs, as well as for operating costs, all park owners have positive cash flow that averages about \$1000 per pad in the City. These are quite similar to the returns in surrounding unregulated cities. In addition, mobile home park values have risen substantially since their purchase. Owners believe they have about \$14,600 per pad in equity in their parks assuming the land is kept in mobile home park use, and \$30,400 per pad assuming conversion to other uses.



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1In contrast to the study of the impact of rent stabilization on Los Angeles apartment owners, it was not possible to take a historical perspective and examine rates of return generated by parks inside the City over the period 1977 - 1984 because only five park owners included substantial data for both 1977 and 1983.

2The interested reader should refer to The Rent Stabilization System: Impacts and Alternatives, one of the companion volumes of the Los Angeles Rental Housing Study, and compare Exhibit 3-14, which shows landlord reported property values compared to reported purchase prices, with Exhibit 3-2, which relies on DAMAR data to measure property appreciation.

3Neither of these figures includes utility payments. Each is for pad rent only.

4Utility pass throughs were eliminated from income and operating expense once again.

5The reader will note that purchase price is cited as \$6,000 and current values are reported at \$18,000 which would suggest that current values are three rather than two times purchase price. However, strictly correct comparisons must be based only on those properties for which both pieces of data are reported, and thus when only those parks that provided both purchase price and current value data are included, current values are twice purchase price.



## CHAPTER 4

### ALTERNATIVE RENT ADJUSTMENT FORMULAS

#### 4.1 Constructing an Index of Mobile Home Park Operating Costs

One of the principal objectives of this study is to develop an index of operating costs that could be used to establish rent adjustment guidelines that compensate Los Angeles landlords for annual increases in operating and maintenance expenditures. This section summarizes how data obtained from the survey of mobile home park owners and operators was used to develop such an index for the mobile home sector. The reader interested in the derivation of the cost based formula for apartment owners should consult the parallel section of the Report on that sector, and Appendix H in the Technical Appendices for further details on the methodology.

Three types of data are required for the development of the cost based index for mobile home parks. First, one must have information on the annual changes that occur in the prices of a number of building operating inputs (e.g., taxes, wages, etc.); second, one must develop a series of weights that can be used to combine these various price changes into an overall index of operating costs. And third, one must estimate an appropriate ratio that can be used to translate changes in operating costs into allowable rent increases. Such a ratio should reflect the share of operating costs and net cash flow in total mobile home park income.

##### 4.1.1 The Expenditure Weights

Weights for the operating cost components were separately computed for mobile home parks based on the park owner survey data. Exhibit 4-1 reports these data and compares them to the weights for Los Angeles apartment rentals. Mobile home park operating costs are significantly more concentrated in employee salaries and management and administrative expenses than are





## EXHIBIT 4-1

Expenditure Weights,  
Mobile Home Parks and Conventional Rentals<sup>1</sup>

	<u>Mobile Home Parks</u>	<u>Conventional Rentals</u> <u>(Tenants Pay Utilities)</u>
Salaries	.27* (.03)	.132 (.010)
Utilities	.27 (.06)	.209 (.010)
Management	.14*** (.02)	.079 (.011)
Parts and Supplies	.04 (.02)	.077 (.007)
Contract Maintenance	.09* (.02)	.248 (.014)
Taxes and fees	.16 (.03)	.174 (.009)
Insurance	.03* (.01)	.081 (.004)

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1. Standard errors in parentheses

\* Mobile home park weight is significantly different from conventional renters at .01 significance level.

\*\*\* Significantly different from conventional renters at the .10 significance level.



apartment expenses, and contract maintenance takes a much smaller share, along with a more modest difference in insurance. The larger average size of mobile home parks likely encourages more staff employment relative to contract maintenance, and the fact that the housing units (coaches) themselves are mostly not maintained by park owners may play a role in these weights as well.

As was done for apartment rentals, we compute increases in overall operating costs by multiplying the weight of each cost component times its percentage price change and adding the products together. One complication arises in the mobile home case. As indicated earlier, the reporting of utility cost pass throughs as income and of utility costs themselves made it unfeasible to calculate precise weights for the gas, electric, and sewer and water subcomponents for which we have prices. We were able to estimate sewer and water costs, which are not passed through, at about 40% of total utilities (net of pass throughs). We treated the electric and gas costs as each equal to 30% of the utility total, but these shares are not based on actual estimates from the survey data. We then computed two weighted cost increases: one based on the observed price change from 1983 to 1984 and a second based on the average change for 1977 to 1984. The results of these computations are contained in Exhibit 4-2. The 1983-1984 weighted increase totals 4.37% and the seven year average is nearly twice as large, at 8.56%.

#### 4.1.2 The Price Data

The annual changes in operating input prices used here are identical to those used for conventional apartment rental prices.<sup>1</sup> Exhibit 4-3 identifies the types and sources of data that can be used to track price changes for each of the major components of building expenses. Whenever possible, prices are measured on an October to September basis. However, in some instances, an alternative reporting period must be employed. A more detailed description of the data sources is presented in the Technical Appendix volume, in Appendix H.



## EXHIBIT 4-2

## Contributions to Increases in Operating Costs

	<u>Product of Expenditure Weights and 1983-1984 Price Change</u>	<u>Product of Expenditure Weights and 1977-1984 Price Change</u>
Salaries	1.07	2.22
Utilities		
Electricity	-0.31	0.67
Gas	0.37	1.50
Water and sewer	1.68	1.70
Management	0.58	1.12
Parts and Supplies	-0.01	0.16
Contracted Maintenance	0.63	0.71
Taxes	0.31	0.31
Insurance	0.05	0.17
	----	----
Overall Price Increase	4.37	8.56



## EXHIBIT 4-3

EXPENDITURE CATEGORIES AND SOURCES OF PRICE DATA<sup>1</sup>

<u>Expenditure Category</u>	<u>Source of Price Data</u>	<u>Period Covered</u>
Salaries	M&M Community Wage Rate Survey:	July - July
Utilities - Electric	cents per unit from DPW	June - May
Gas	cents per unit from Pacific Lighting	January - December
Water	cents per unit from DPW	June - May
Sewer	cents per unit from City	October - September
Management and Admin.	All-Item CPI for Los Angeles	October - September (12-month average)
Parts and Supplies	CPI (West) maintenance and repair commodities	October - September (12-month average)
Maintenance and Repair Services	CPI (West) maintenance and repair services	October - September (12-month average)
Taxes and Fees	2 percent per year	
Insurance	Dodge Building Cost Index	September - September (point estimates)

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1. See Appendix H for a detailed discussion of these sources.





One major area of concern is the treatment of property taxes. As part of this analysis we examined the information on the aggregate assessed values of multifamily residential properties in 1982, 1983 and 1984. Analyses of these data revealed an average annual tax increase of about 8%. This is also discussed in Appendix H. However, Proposition 13 limits tax increases in buildings that do not turn over to 2% per year. As a result, using the 8% average to construct the cost-based Index would overcompensate the vast majority of City park owners who have not acquired their properties during the current period. Thus the 2% maximum has been employed for purposes of this analysis.

Exhibit 4-4 presents information on price changes that have occurred since the enactment of rent stabilization. It shows that the prices of natural gas and water and sewer have increased most rapidly over the period, although the rate of inflation in the price of gas has dropped significantly in the last 12 months. Prices rose least rapidly for parts and supplies and insurance. Electricity costs experienced a price decline in the most recent year, although the long term rate of increase for electricity was relatively high. The Exhibit does not include price data for property taxes, which are assumed to increase by 2% per year in future years.

#### 4.1.3 Constructing the Index

The final step in obtaining a cost-based rent adjustment formula is to define a ratio to relate changes in operating costs to changes in rent. We use an approach that maintains the "real" value of a park's cash flow, defined as net operating income minus mortgage payments (principal and interest). This is accomplished with the following formula:

$$\text{Allowable Rent Increase} = a * I + b * C$$

where  $a$  is the ratio of pre-tax cash flow to rents,  
 $b$  is the ratio of operating costs to rents,  
 $C$  is the estimated percentage change in operating costs,  
and  $I$  is the all-item CPI for the Los Angeles area.



## EXHIBIT 4-4

## TRENDS IN THE PRICE OF BUILDING INPUTS: 1977-1984

Expenditure Category	Annual Price Changes								% Change 1983-1984	Compounded Annual Rate 1977-1984
	1977	1978	1979	1980	1981	1982	1983	1984		
Salaries and Wages <sup>1</sup>	5.90	6.51	6.63	7.24	8.36	9.09	9.89	10.29	4.04	8.27
Utilities										
Electric <sup>2</sup>	3.37	4.01	4.24	5.08	6.15	6.43	6.06	5.83	-3.80	8.15
Gas <sup>3</sup>	187.48	195.35	257.06	340.51	357.16	451.93	580.16	606.61	4.56	18.26
Water and Sewer <sup>2</sup>	.4159	.5074	.5063	.5349	.7894	.8806	.9851	1.1363	15.35	15.44
Management and Administration <sup>4</sup>	100.00	106.90	116.96	135.44	149.69	161.73	164.10	171.00	4.20	7.97
Parts and Supplies <sup>5</sup>	100.00	102.06	109.02	120.63	132.10	136.37	138.40	137.87	-0.38	4.70
Maintenance and Repair Services <sup>5</sup>	100.00	103.28	112.92	125.07	138.67	151.60	155.87	166.12	6.58	7.52
Insurance <sup>6</sup>	1045.5	1123.8	1170.9	1312.4	1457.2	1507.0	1506.1	1529.8	1.57	5.59

1. M&M Community Wage Rate Survey for Los Angeles County. Figures for 1977 to 1983 are weighted average rates reported for general maintenance workers, which do not account for changes in the group of firms reporting. The 1984 figure is calculated based on a 4.0% increase for this category of worker taken from the two-year constant participants information provided in the 1984 edition of the survey.

2. City of Los Angeles, Department of Water and Power. Average rates: cents per KWH for electric and dollars per 100 cu. ft. for water. Sewer charges are based on water usage and reflect a weighted average of residential and commercial rates.

3. Pacific Lighting Corporation, 1983 Annual Report. Average rate, cents per 1,000 cu. ft.; 1984 figure is preliminary.

4. All-item CPI for Los Angeles.

5. CPI for all urban consumers. Annual averages (Oct. - Sept.) for Maintenance and Repair Commodities and Maintenance and Repair Services, western region.

6. Dodge Building Cost Index for U.S. and Canadian cities.



Constructing this formula with values derived from the mobile home survey produces an adjustment that compensates owners for changes in operating costs and keeps their profits rising with inflation (assuming no refinancing). Exhibit 4-5 shows how the mobile home values for the two ratios in the formula compare with those of apartment rentals. The ratio of operating costs to rents is very similar. The ratio of cash flow to rents is much higher for the sampled mobile home parks. (Note that these ratios have residential rental rather than total income as the denominator in the mobile home park case, and thus differ slightly from the ratio used in earlier Exhibits relating costs to total income in Chapter 3.) The higher cash flow percentage for the mobile home cost-based formula will produce a larger rent adjustment, in order to keep profits moving upward with overall prices. It is, of course, a value judgment whether the larger adjustment is appropriate as a response to proportionately higher current cash flows associated with less debt and greater equity in the parks, as compared to other types of residential rental properties.

#### **4.2 Comparing the Impacts of Alternative Rent Adjustment Formulas**

This section compares several options to the current rent adjustment ceiling, and estimates the relative impacts of the different formulas on tenants and landlords. We begin by defining the optional formulas and examining the annual percentage rent increases each would allow. Next we estimate the impact of alternative formulas on Los Angeles tenants, focusing on changes in rents and rent to income ratios. The analysis then turns to the impacts of alternative formulas on landlords, estimating changes in net operating incomes.



EXHIBIT 4-5

Ratios of Cash Flows and Operating  
Costs to Rental Incomes, Mobile  
Home Parks and Conventional Rentals<sup>1</sup>

	<u>Mobile Home Parks</u>	<u>Conventional Rentals</u>
Ratio of cash-flow to rental income	.41* (.06)	.17 (.02)
Ratio of operating costs to rental income	.39 (.05)	.41 (.04)

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1. Standard errors in parentheses.

\* Mobile home park value is different from the conventional rental value at the .01 significance level.





Throughout this section the analysis deals with the relative impacts of different formulas. We have not been requested to simulate comparable outcomes in an unregulated housing market. In addition, our estimates of rents, incomes and operating costs all represent projections only one year into the future. While we employ both current and historical price trends in making these projections, we are not forecasting the long-term, cumulative effects of alternative rent stabilization formulas. Finally, all the rent adjustment formulas considered in this section retain the existing specialized system of vacancy de-control for mobile homes.

#### 4.2.1 Alternative Rent Adjustment Formulas

For the mobile home park housing universe, seven formulas, rather than six formulas as in the analysis of conventional rentals, have been analyzed. The index formulas analyzed are:

- (1) The current flat 7% ceiling - This would continue the current system and allow rents in parks where tenants pay their own utilities to increase by 7% a year.
- (2) CPI - The second formula would allow rents to increase annually by the percentage change in the All-Item Consumer Price Index for the Los Angeles Standard Metropolitan Statistical Area (SMSA), averaged over the October to September period.
- (3) Non-shelter CPI - The third formula would allow rents to increase by the percentage change in the non-shelter component of the Los Angeles CPI. This formula attempts to avoid any feedback from one year's rent adjustment allowance to the subsequent year's CPI.
- (4) Percent of CPI (based on conventional rental building data) - The fourth formula would allow rents to increase by a fixed fraction of the change in the All-Item CPI, where the fraction represents the average ratio of operating costs and cash-flow to building income in the conventional apartment stock. (This formula attempts to compensate owners for changes in operating costs and for the effects of inflation on the real value of cash-flow, while recognizing that financing costs typically do not change. The landlord survey of conventional apartment buildings yields an operating cost-to-income ratio of 41% and a cash flow-to-income ratio of 17%. Therefore, this formula would allow rents to rise by 58% of the CPI.)



(5) Cost-based index (based on conventional rental building data) - The fifth formula would relate rent increases to actual changes in operating costs and protect landlords' cash-flow from inflation. However, it would not compensate landlords for fixed financing expenses. This formula represents a weighted average of the CPI and an estimated Price Index of Operating Costs (PIOC) estimated for conventional rental buildings.

(6) Cost-based index, based on mobile home park data - The sixth formula would relate rent increases to actual changes in operating costs for mobile home parks and protect mobile home park owners' cash flow from inflation. However, it would not compensate park owners for fixed financing expenses. This formula represents a weighted average of the CPI and an estimated Mobile Home Park Price Index of Operating Costs (MPIOC) estimated specifically for mobile home parks.

(7) Percent of CPI, based on mobile home park data - The seventh formula would allow rents to increased by a fixed fraction of the change in the All Item CPI where the fraction represents the average ratio of operating costs and cash flow to mobile home park rental income. This formula attempts to compensate landlords for changes in operating costs and for the effect of inflation on the real value of cash flow, while recognizing that financing costs typically do not change. The mobile home park owner survey yields an operating cost to income ratio of 39% and a cash flow to income ratio of 41%. Therefore this formula would allow rents to rise by 79% of the CPI.

The first five of these formulas are identical to those used in the analysis of apartment rent stabilization. The rate of return formula, which is considered in that Report but not applied to the analysis of alternative impacts, is not considered here.<sup>2</sup> The last two formulas considered here are constructed specifically from the mobile home park survey data, but otherwise follow the construction of comparable formulas for apartment rentals. The mobile home park cost-based formula first computes a weighted average of park owner operating cost component increases. It then indexes rents by an amount based on offsetting that cost increase and in addition increasing net cash flow to park owners to keep pace with inflation. The percent-of-CPI formula roughly imitates the cost-based formula, without using detailed cost and price increase data. Using the values of the ratios presented in Exhibit 4-5, the weighted cost increases in Exhibit 4-4, and



alternative sets of inflation rates, we obtain mobile home cost-based formula increases of 3.44%, based on 1983-84 price data and 6.58% based on 1977-84 price data. These compare to 2.27% and 4.56% for a cost-based formula based on conventional unit rentals. The percent of CPI rent adjustment formula for mobile homes, .79 times the inflation rate, yields 3.37% and 6.36% for the price changes in the same respective time periods. Clearly this result is similar to the cost-based formula, by design. The corresponding numbers for a comparable percent-of-CPI formula using data from conventional rental units are 2.48% and 4.67%.

Each of the formulas listed generates a maximum allowable rent increase for mobile home park residents. To estimate the typical rent increase facing mobile home park residents under each formula, we must deal with three further matters. First, we assume that park owners increase rents by the allowable maximum. This is a reasonable approximation based on observed increases under the current formula. Second, we neglect any additional increases allowed based on utilities that are paid for by park owners. If utility adjustments continue to be allowed where park owners pay utilities, some residents will face larger rent adjustments under each formula; but relative increases across formulas would be unchanged from what is shown below.

Third, we must take into account rent changes occurring when mobile home pads or pads and coaches become vacant. According to the survey of mobile home tenants, the turnover rate was only 0.5% in 1984. This was lower than historically observed but not sharply different, since the reported turnover rate was only 1.6% in 1983. We have therefore applied the 0.5% level.<sup>3</sup> As previously discussed, the large majority of mobile homes are owned by their residents, and occupancy changes generally involve the sale of a mobile home in place to a new resident. Under current law, rents are allowed to rise by 10% in such cases (or to the highest comparable rent in a park). We assume that whatever turnover there is always occurs in this way and therefore that 10% rent increases then occur. Besides the fact that this is the predomi-





nant case, we have no estimate of rent increases in the cases of full decontrol and therefore could not treat them in the analysis even if we anticipated some such decontrol vacancies to occur.

Note also that the resident survey data do not yield a sufficient number of movers to estimate different mobility rates for different household types, as was done for renters of conventional apartments. We simply have 0.5% of all households moving each year and being charged 10% increases in rent.

Given these assumptions, we compute average rent increases under any given formula as follow:

$$\text{Rent increase} = (.995)(K)(R) + (.005)(.10)R$$

where the .995 and .005 represent the proportion of movers and non-movers within the past year, K is the rent adjustment allowed for non-movers by a given formula, .10 is the adjustment for movers and R is the average initial rent (\$248.00/pad).

The rent increases that result from each formula are presented in the first two columns of Exhibit 4-6. Note that for each formula, two rent changes are generated: one based on changes in prices occurring between 1983 and 1984 and the other based on average annual increases from 1977 to 1984. We do not know, of course, which of these more accurately reflects the likely future. Note also that we again focus on the predominant group of park residents: coach owners. The numbers do not necessarily apply to coach renters, who would face full decontrol when moving. However, if the analysis did apply, the percentage changes in rents charged to coach renters would be identical to that for coach owners, but the absolute rent increases would be smaller by 6%.

Looking at the expected increases in rents, we observe first the critical importance of future general price inflation. Except for the 7% standard, each formula generates about twice as large an increase if price conditions like the 1977-1984 average prevail then if future inflation is similar to 1983-1984.

Comparing formulas, we see that rent increases using the 1983-1984 period range from 2.27%, for the cost-based formula based on conventional apartment rental costs, to just over 7%





## EXHIBIT 4-6

Impact of Alternative Rent Adjustment  
Formulas on Mobile Home Coach Owners

<u>Adjustment Formula</u>	<u>Change in Monthly Rent</u>	<u>% Change In Monthly Rent</u>	<u>% Change in Monthly Housing Cost for Owners With Mortgages</u>	<u>% Change in Monthly Housing Cost for Owners Without Mortgages</u>
7%				
83-84 base	\$17.38	7.01%	3.08%	5.47%
77-84 base	\$17.38	7.01%	3.08%	5.47%
CPI				
83-84 base	\$10.49	4.23%	1.86%	3.30%
77-84 base	\$19.79	7.98%	3.51%	6.22%
Non-Shelter CPI				
83-84 base	\$ 9.27	3.64%	1.60%	2.84%
77-84 base	\$18.18	7.33%	3.23%	5.72%
% of CPI, Conventional				
83-84 base	\$ 6.15	2.48%	1.09%	1.93%
77-84 base	\$11.58	4.67%	2.05%	3.64%
Cost-based, Conventional				
83-84 base	\$ 5.63	2.27%	1.00%	1.77%
77-84 base	\$11.31	4.56%	2.01%	3.56%
Cost-based, Mobile Homes				
83-84 base	\$ 8.53	3.44%	1.51%	2.68%
77-84 base	\$16.32	6.58%	2.90%	5.13%
% of CPI, Mobile Homes				
83-84 base	\$ 8.36	3.37%	1.48%	2.63%
77-84 base	\$15.77	6.36%	2.80%	4.96%



(due to the few movers) that would be permitted by the current flat ceiling. With \$248 as present average monthly rent, the absolute monthly increases vary from \$5.63 to \$17.38. Using price data from the 1977-1984 period, annual increases range from a low of 4.56%, for the conventional apartment rental cost-based formula, to nearly 8% for the CPI index (\$10.49 to \$19.79). The mobile-home-park specific formulas fall in the middle of the range of results in each case.

It is worth noting that all the formulas generate rent increases of well below 10% per year. This means that if mobility rates climb from the very low levels observed currently in the mobile home survey, so that more mobile home residents are subject to the 10% increases at change of occupancy (or to potentially larger decontrolled changes), then average annual rent increases would be higher than those shown in the table. The same would be true if it developed that the much higher turnover rate suggested by the survey of park owners was the better predictor of unit turnover.

#### 4.2.2 Impacts on Tenants

The implications of given rent increases are different among mobile home residents according to the role that rent plays in their overall housing costs. A notable difference is between coach owners with mortgages and those without, as illustrated in the third and fourth columns of Exhibit 4-6. For coach owners with mortgages, average pad rent constitutes only 44% of average total housing costs. For coach owners without mortgages, the comparable figure is 78%. As a result, each rent formula produces a substantially lower percentage increase in average total housing costs for mobile home residents with mortgages<sup>4</sup>. Other housing costs to coach owners besides pad rents would also rise over time, especially for the majority who do not have mortgages but face maintenance, utility, and other "operating expenses." Therefore, the figures in the last two columns do not represent total housing cost increases resulting from the formulas for pad



rent adjustment. Those figures do illustrate the existence of substantial non-rent costs which moderate the difference between formulas in how they affect housing costs.

A further intended analysis had been to assess alternative formulas' impact on rent-to-income ratios for park residents of various types. This however requires estimates of changes in income levels. The small number of observations for mobile homes in the 1977 Annual Housing Survey limits us to a single overall coach-owner estimate for income growth, which comes to 7.3% annually, based on 1977-1984 data. Applying this to all coach owners, there is little differential effect by formula for that period. The current rent-to-income average of .230 would fall only as low as .224 for the cost-based formula which relies on apartment costs, or rise as high as .231 for the CPI-based formula. The variation in terms of ratios of total housing cost to income would be still less. The impacts would, however, grow over larger numbers of years.

#### 4.2.3 Impacts on Park Owners

This section examines the way owners of Los Angeles mobile home parks would be affected by alternative rent adjustment formulas in terms of measures of their financial position. The analysis parallels that for owners of conventional apartment properties, using the set of formulas employed above and applying them to mobile home park data. As before, the analysis does not attempt to model the long-term impact of such formulas. Rather it predicts short term changes in building revenues under two sets of price assumptions. The first uses price changes between 1983 and 1984 to predict trends in the upcoming year; the second bases these predictions on the average annual price increase observed over the period 1977 - 1984. Two changes from the apartment landlord analysis are made, however. The first is the addition of two further formulas: (6) a cost-based index based on operating costs specific mobile home parks, and (7) a proportion-of-CPI formula also based on park costs rather than those of conventional rental properties. The second difference is in the



applicable vacancy decontrol provisions. The current vacancy decontrol provisions for mobile home parks are assumed to hold for all adjustment formulas, rather than the provisions applicable to apartments.

We can now use the adjustment formulas just defined for mobile home owners and those developed for apartment rentals to assess impacts on park owner financial conditions. As discussed in Section 4.2.1, we must first convert the allowed rent adjustments under the formulas to anticipated rent increases given likely resident mobility and treatment of rents at the time of vacancy. We conduct this analysis based on assumption of the 0.5% mobility rates observed in the resident survey.<sup>5</sup> Rents are assumed to be adjusted by 10% at vacancy, the maximum allowed when a coach is sold but not moved from its site -- the predominant turnover case.<sup>6</sup> For each formula, park owners are anticipated to raise rents by the allowed maximum. The increase in rental income is then a weighted average of the allowable maximum from the formula and 10%, with resulting weights of .995 and .005, respectively. Again, it should be noted that higher mobility rates would produce larger numbers than those computed because the formula rates are all less than 10%.

The first two columns of Exhibit 4-7 show the results of applying the alternative formulas and vacancy assumptions to mobile home park rental incomes to property owners. Each formula is viewed based on both 1983-1984 and 1977-1984 price data. Obviously, the higher annual inflation rates during the longer period produce larger rental income increases under the latter price assumption for any given formula, except the fixed 7% ceiling. Increases would be roughly twice as large under all other formulas if the future inflation matched the 1977-1984 average rather than 1983-1984 levels.

Rental income increases also vary sharply by formula, as discussed above for residents. The most advantageous to park owners would be the 7% formula using the less inflationary base period, and the CPI-based adjustments, using the more inflationary base. The least advantageous are the cost-based and







## EXHIBIT 4-7

Impacts of Alternative Rent  
Adjustment Formulas on Park Owners'  
Financial Situation

<u>Adjustment Formula</u>	<u>Change in Average pad rent/yr<sup>1</sup></u>	<u>% Change in Pad Rent Income</u>	<u>Change in Average NOI/yr</u>	<u>% Change in NOI</u>	<u>Change in Ratio of Operating Expense to Rent Income</u>
7%					
83-84 base	\$164.89	7.01%	\$122.79	8.85%	-.009
77-84 base	\$164.89	7.01%	\$ 86.71	6.25%	.006
CPI					
83-84 base	\$ 99.41	4.23%	\$ 57.31	4.13%	.002
77-84 base	\$187.58	7.98%	\$109.40	7.88%	.002
Non-shelter CPI					
83-84 base	\$ 85.61	3.64%	\$ 43.51	3.14%	.004
77-84 base	\$172.38	7.33%	\$ 94.20	6.79%	.005
% of CPI, Conventional					
83-84 base	\$ 58.25	2.48%	\$ 16.15	1.16%	.008
77-84 base	\$109.70	4.67%	\$ 30.82	2.22%	.015
Cost-based, Conventional					
83-84 base	\$ 53.33	2.27%	\$ 11.23	0.81%	.009
77-84 base	\$107.11	4.56%	\$ 28.93	2.08%	.015
Cost-based, Mobile Homes					
83-84 base	\$ 80.93	3.44%	\$ 38.83	2.80%	.004
77-84 base	\$154.60	6.58%	\$ 76.42	5.51%	.007
% of CPI, Mobile Homes					
83-84 base	\$ 79.29	3.37%	\$ 37.19	2.68%	.005
77-84 base	\$149.46	6.36%	\$ 71.28	5.14%	.008

1. These rent changes differ from the annual equivalent of rent changes computed for resident in table 2-32, because average pad rents here are 1983 data from the landlord survey and in table 2-32 are 1984 data from the resident survey.



percent-of-CPI formulas based on cost data for conventional rentals property. Cost-based and percent-of-CPI formulas produce notably larger income increases to park owners if they are based on mobile-home-park data rather than on apartment cost data, at least for our limited sample. The larger adjustment the results from larger proportions of net cash flow in the mobile home case produces that effect.

The third and fourth columns in Exhibit 4-7 summarize changes in net operating income (NOI) under the alternative formulas. Each net operating income change involves the subtraction of increased average operating costs from the increased average rents. Given 1983 operating costs observed in the park owner survey and the price changes obtained for each cost component, average operating expenses per pad would rise \$42.10 based on 1983-1984 prices and \$78.18 based on 1977-1984 prices, 4.64% and 8.62% respectively.<sup>7</sup>

The resulting changes in net operating income would be positive under any of the alternative formulas. Assuming 1983-1984 type price experience, the current 7% ceiling would produce a larger NOI increase than would any other -- more than twice as large as the next largest (the CPI-based formula). Continuation of the current ceiling would increase NOI three times as rapidly as the cost-based and percent-of-CPI mobile home formulas (again assuming that future inflation equaled that of 1983-1984). Using cost-based or percent-of-CPI formulas drawn from conventional rental unit costs would produce the slowest rise in NOI.

Assuming 1977-1984 cost changes, however, continuation of the current ceiling would produce somewhat less increase in NOI than would an all-item or non-shelter CPI-based formula. Cost-based and percent-of-CPI formulas based on mobile home data would generate only modestly slower NOI increase than the current ceiling, while the same formulas based on conventional rental cost data would yield sharply slower increases.

The final column of Exhibit 4-7 shows what would happen to operating expenses as a proportion of park owners' rental incomes under the alternative formulas. In general this proportion would



rise slowly, compared to the current level of 0.386. Rental income would rise by a lower percentage than would operating expenses, producing this result. But absolute increases in rents would exceed increases in operating costs under any formula, producing the positive changes in NOI already noted. Further, to the extent that the park sample is representative of park owner financial situations, at least those formulas that raise NOI as rapidly as in the mobile-home-cost-based index are sufficient to increase net cash flows at or above the rate of inflation, even though operating costs may rise at a faster speed than rents. The changing ratios of operating expenses to rental incomes suggest that one might want to re-examine that ratio from time to time, with survey data, if it were employed in the construction of a cost-based, percent-of-CPI, or similar formula.



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<sup>1</sup>For apartment rentals we used the weights that apply to buildings that are not master metered, following the practice in the analysis of apartment owners and reflecting the disregard of utility based adjustments in the adjustment formulas. For mobile home parks, the weights are for all parks combined, given the small number of total observations available.

<sup>2</sup>The Fair Rate of Return formula would allow rents to increase enough to yield a fair rate of return to investors. In particular, it assumes that the pre-tax return on value should be equal to the weighted average of the current mortgage interest rate and the interest rate on low grade (Baa) municipal bonds. The weights are designed to reflect the typical shares of debt and equity for a newly financed property, which are assumed to be 80% and 20%, respectively. However, in calculating this formula it was discovered that these standards implied a substantial annual reduction in allowable rents. No standard measure of competitive investment yield had grown more rapidly in the most recent years than Los Angeles rental properties have appreciated in value. Neither have most Los Angeles stabilized properties been unprofitable. Thus the combination of appreciation and profit regularly exceeded all competing rates of return suggested. Since rent reductions of the magnitude suggested would produce a severe strain on building finances, it was not included as an option in the impact analysis on conventional rentals and is not included here.

<sup>3</sup>It is possible that the survey of mobile home park residents understates mobility rates. The survey of park owners suggests mobility rates at about 7%. But the resident survey should be more fully representative. The difference in results within the range of 0.5% to 7% is small, however, in no case involving more than a 0.5% difference in average rent adjustment.

<sup>4</sup>Coach owners pay 85% of housing costs as rent, so that the percent of housing cost increase figures for that group would modestly exceed the no mortgage coach owners' level.

<sup>5</sup>The mobility rate was 0.5% in 1984. It was slightly higher, at 1.5% in 1983. Park owners reported about 7% mobility, however, as noted earlier.

<sup>6</sup>As before, we lack any estimate of how rents would change in a case of full vacancy decontrol: resident owned coach being moved or vacancy when coach and pad are both rented.

<sup>7</sup>The resulting estimates of NOI change are slightly overstated because one possible change in lease payments is neglected. The sole leasehold in our park sample has a lease payment that varies with rental income. We do not know how the variation occurs and thus could not take it explicitly into account. However, there is an offsetting factor that works to understate increases in NOI. Our rent adjustment formulas contain no extra adjustment for landlords who pay all or some utilities, but one exists in







the current 7% formula and might be retained under alternatives. The understatement of NOI would be largest for the mobile home based formulas, which include utility increases for those park owners who pay for resident utility usage.



## CHAPTER 5

### SPECIAL NEEDS AND PROBLEMS OF MOBILE HOME RESIDENTS

In addition to concerns about the financial benefits and costs of rent stabilization in Los Angeles, which they share with other landlords and tenants, owners and residents of mobile home parks have concerns particular to the mobile home housing situation. These include:

- The possible conversion of mobile home parks to alternative uses.
- A possible shortage of mobile home parks, both for current residents and in terms of expanding use of mobile homes as a form of affordable housing.
- A possible deterioration of mobile home park infrastructure.

Each of these problems could be important to the residents especially because of the often substantial investment that most of them have as owners of their coaches. In this chapter, we briefly assess the extent of these problems, drawing on data from both the resident and the park owner surveys, including data already provided in previous Chapters, and data from outside sources.

#### 5.1 Conversion of Mobile Home Parks

The possibility that their mobile home park will either be converted to another use by its current owner or sold for alternative use is a substantial concern for Los Angeles mobile home residents. Exhibit 5-1 indicates that 38% of the mobile home park residents surveyed said that they worry about this possibility. The significant level of concern is confirmed by representatives of the Golden State Mobile Home Owners League (GSMOL).

The limited information we have about park owners' potential, intention, and incentive to convert parks to other uses or to sell to others who would, suggests that residents' concern is well founded. Mobile home parks in Los Angeles are generally on land zoned to allow substantially different uses. Exhibit 5-2



EXHIBIT 5-1  
Mobile Home Residents' Concerns  
with Park Conversion

Percent who worry park may be sold	38.2%
Percent who would consider buying their park cooperatively	52.8%
Average cash available to invest in cooping park	\$17,664 <sup>1</sup> (4,888)
Median cash available to invest in cooping park	\$ 5,000

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1. Standard error in parentheses.

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EXHIBIT 5-2  
Zoning Classifications of  
Los Angeles Mobile Home Parks

<u>Classification</u>	<u>Percent of All Parks</u>	<u>Percent of Parks in Sample</u>
Industrial	49.3%	25.0%
Commercial or commercial manufacturing	8.7	33.3
Agricultural	14.5	0
Low-density residential	20.3	16.7
Higher-density residential	7.2	25.0



shows the zoning classification of all Los Angeles mobile home parks, not just those in the sample. About half of all parks are on land which would allow industrial uses (mostly light industrial), and another 15% permit other high intensity uses -- commercial/industrial, commercial, or multi-family residential. Within just our sample, 83% of the parks are in industrial, commercial, or high-density residential zones. In addition, the areas surrounding the parks in the sample are mostly in non-residential use, according to park owners, half are in commercial use and another 17% in industrial use. The possibility of conversion without the need for zoning change is certainly frequently present.

It is less clear how much of this possibility may actually be realized. Exhibit 5-3 sheds some light on this question. Fifty-eight percent of the Los Angeles park owners say that they may possibly sell their parks, but none are certain that they will do so. This is higher than the 40% in parks outside Los Angeles who might consider selling. Plans by owners to do their own conversions are similar as between locations. Non-Los Angeles owners seem to more often see their plans constrained by current zoning.

Forty two percent of the Los Angeles park owners, as indicated in Exhibit 5-3(b), say that if they did sell, the sale would result in uses other than a mobile home park. Exhibit 5-3(c) indicates that two of the 12 owners say they plan to convert their parks to other uses themselves, but in one of these two cases the conversion is intended to be to cooperative ownership by residents. Exhibit 3(d) shows that 58% of Los Angeles park owners have indicated that the alternative uses they anticipate at sale or conversion are already permitted by current zoning. Representatives of park owners' associations anticipate many possible conversions to commercial or industrial use by current owners or at sale, especially in parks in redevelopment areas or close to other profitable land uses such as shopping malls.





# EXHIBIT 5-3

## Park Owners' Future Plans for Mobile Home Parks and Park Lands

### 3a. Plans to Sell Parks

<u>Intentions</u>	<u>Percentages of Los Angeles Parks</u>	<u>Percentages of Non-Los Angeles Parks</u>
Yes	0.0%	0.0%
Possibly	58.3	40.0
No	41.7	60.0

### 3b. Park Land Use if Sold

<u>Uses</u>	<u>Percentages of Los Angeles Parks</u>	<u>Percentages of Non-Los Angeles Parks</u>
Mobile home park	33.3%	20.0%
Industrial	8.3	0.0
Commercial or industrial	8.3	20.0
Other (residential)	25.0	0.0
No answer <sup>1</sup>	25.0	60.0

- 
1. Includes most of those who do not plan "possibly" to sell at this time.



### 3c. Plans to Convert Parks by Owners Themselves

<u>Intentions</u>	<u>Percentages of Los Angeles Parks</u>	<u>Percentages of Non-Los Angeles Parks</u>
Yes, plan <sup>1</sup> to convert	16.7%	20.0%
No	58.3	80.0
No answer	25.0	0.0

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1. Includes one conversion to resident cooperative.

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### 3d. Zoning for Other Planned Uses

<u>Whether Zoning Permits Uses Planned for Sale or Conversion</u>	<u>Percentages of Los Angeles Parks</u>	<u>Percentages of Non-Los Angeles Parks</u>
Yes	58.3%	20.0%
No	16.7	60.0
Not sure or no answer	25.0	20.0



It will also have been noted that the owners' own estimates of the value of their properties if put to alternative use do suggest strong economic incentives for owners to sell their parks for other uses or to convert them to other use themselves. The average park owner reports the value of his property as 1.79 times<sup>1</sup> larger if in non-mobile-home park use than in sale as a mobile home park. While not all those estimated alternative-use values may be currently realizable, they do represent substantial encouragement to change.<sup>2</sup> Representatives of park owners' associations concurred that mobile home park land is often more valuable as land put to other uses. For non-Los Angeles parks, the owners' estimated ratio of value in alternate use to value as park is lower, at 1.17. Based on the very limited data, the intent and incentive to change use is perhaps somewhat more powerful within Los Angeles but exists elsewhere as well.

Given the possibility that current park owners will wish no longer to operate their parks, what is the potential for sale of parks to residents in the form of mobile home cooperatives? Returning to Exhibit 5-1, we see that 53% of all residents would consider buying their parks cooperatively. While this is a substantial figure, it is difficult for residents of a given park to purchase it without very broad concurrence among themselves. Representatives of park resident associations also believe that there is substantial resident interest in cooperatives, but that it varies substantially by park, as does ability to pay for purchase. Park sale to residents as cooperatives may not be terribly attractive to owners, however, because of their belief that outright sale for other uses could be more profitable, and because tax-free exchanges of properties are favored by current tax laws.

The economics of cooperative purchase suggest that purchase for most residents would be a close financial call. Residents report averaging about \$250 per month in pad rents. Suppose for example that two-fifths of that goes for operating costs, as now seems to be the case. The remaining \$150 per month could support repayments on borrowing of about \$14,600 if a loan were obtained



at 12% interest, for 30 years, to buy into the cooperative. Exhibit 5-1 indicates that the median coach owner who responded to the question of how much cash he or she had available for cooperative purchase said that \$5,000 cash was available, while the average cash available was over \$17,000. The median \$5,000 cash plus \$14,600 borrowed is sufficient to pay \$19,600 per pad, which is somewhat more than what park owners say is their average property value per pad for mobile home use, (i.e., \$18,202 per pad).

Thus, if good long-term financing could be obtained, many coach owners probably could buy parks sold at their estimated value in mobile home park use without having to raise their monthly costs. They would have to put in more cash than they now pay, but could later recoup by selling their share in the cooperative. However, if park owners sell only at or near their estimates of park value in alternate land use (\$33,896 per pad), cooperative conversion would be significantly more difficult or even impossible for large numbers of residents. Of course, zoning law or other regulatory changes that restricted alternate use of parks would make it easier for residents to afford conversion, but only at a potential direct cost in future asset value to park owners that would be severe if the estimates of value for alternative use proved correct.

## **5.2 Excess Demand for Mobile Home Park Spaces in the Los Angeles Market**

There is widespread belief among mobile home residents that there exists a shortage of space in Los Angeles mobile home parks relative to demand and that this shortage is likely to continue, limiting the mobile home option as a means of providing relatively affordable housing. Seventy-nine percent of mobile home park residents feel that the current number of mobile home parks is insufficient. Available data from park owners support the notion of a shortage of space for coaches. Vacant pads were found to be virtually non-existent -- only two out of 1,226 appeared in the sample. Mobility rates are so low, whether estimated at the resi-





dent level of 0.5% or at the park owner level of 7% per year, that few coaches are likely to come open as a result of their occupants' moving. Park owner association representatives estimate vacancy rates at 2% to 3%. One third of parks have a waiting list, and coaches typically sell within three months of being put on the market.

Mobile home dealers interviewed agree that the shortage of spaces is acute in the City of Los Angeles and in the metropolitan area. They indicate that few Southern California dealers stock new coaches because so few spaces are available. The dealers observed that some people who can afford it buy small lots of their own for their mobile homes, but this is difficult because of the high cost of land in the Los Angeles basin.

A variety of factors inhibit establishment of new parks. Currently the City of Los Angeles has no land zoned for new mobile home park use. New mobile home parks would only be permitted under use permits obtainable after individual scrutiny by the City of the site and the potential placing of a variety of development and usage conditions on the granting of the use permit. Representatives of park owner associations say that zoning, government requirements that add to cost, the high cost of land, high interest rates, and limited profitability because of rent stabilization are factors inhibiting additional park development. Representatives of park resident associations agree that economics are the key to the shortage situation, but from a different angle. They suggest that even the addition of further parks will significantly improve the situation for residents only if better affordability is provided, through long-term leases and/or sale of parks as cooperatives at reasonable prices. Given the high cost of land in Los Angeles and the competition for and restriction on its uses, the residents' associations believe the shortage of mobile home spaces is destined to persist in the absence of active government intervention.



### 5.3 The Condition of Mobile Home Park Infrastructure

In contrast to the repeated evidence of park shortages, the condition of mobile home park infrastructure does not seem to be a particularly serious problem, at least at the present time. Information obtained from park residents and park owners suggests that infrastructure is generally not in severe need of improvement, and there is no evidence in either survey that residents or owners believe necessary repairs are being systematically neglected.

Residents indicated that they were either very or somewhat satisfied in this respect. Ninety percent were satisfied with park physical condition, 83% with overall upkeep, and 82% with speed of repairs. These were higher percentages than were satisfied with other aspects of park operation, and substantially larger than the size of the group who were satisfied with rent levels. Very few residents indicated readiness to move based on a series of "neighborhood" conditions that in mobile home parks are in part measures of park upkeep. And, a decline in park maintenance was not considered by residents to be one of the more common impacts of rent stabilization.

Among park owners or landlords, 60% rated their parks as in superior or above-average condition, although 25% rated theirs as needing improvement. Park owners estimated their parks' needs for capital improvements at about \$395 per pad, a figure lower than the average outlays that had been made to date during the 7 years of rent stabilization. Reported park conditions were as good or better than those for non-Los Angeles parks.

Furthermore, three-quarters of park owners said that they fully intended to make needed improvements. We saw that all park owners in our sample had positive cash flows on which to draw for repairs and improvements, averaging about 40% of total income. Current average annual cash flows of slightly over \$1,000 per pad compare favorably with the less than \$400 cited as capital improvement needs per pad. In addition, currently needed improvements could potentially be financed over time out of rent in-



creases without involving major increases in rent levels. Suppose, for example, all improvements defined as currently needed were made at once. Assume they were financed over 10 years with financing at 15% interest rates.<sup>3</sup> A rent increase sufficient to pay off such a loan comes to \$6.37 per month, or 2.5% of current average rents. In short, while additional infrastructure needs may arise, and parks clearly differ in current physical condition, costs of repair, and financial position, available data do not point to infrastructure condition as a major special problem for mobile home park residents and owners.



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1The 1.79 figure is somewhat smaller than the ratio of average value in alternative uses to average value as a park that was reported earlier. The 1.79 figure is the average of the ratio of other value to park value in each park.

2Operating on the other side is a City requirement of significant relocation expenses for certain categories of mobile home residents in the event of conversion to other use. This study did not, however, analyze the relocation sections of the Municipal Code in detail.

3Or assume similarly that cash were paid and a 15% return were sought over 10 years.





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